September 1960

THE CANADIAN CHARTERED ACCOUNTANT

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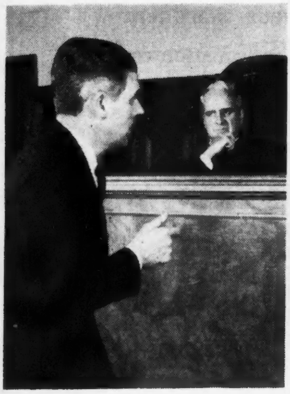

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THE CANADIAN CHARTERED ACCOUNTANT

Vol. 77, No. 3 September 1960

IN THIS ISSUE

D. I. W. BRAIDE (page 187)

The techniques of scientific management are being increasingly publicized, and sales forecasts in business planning form a strong link between the external influences on a business and the internal factors which are determined by a number of specific management decisions, As David I. W. Braide points out in his article "Sales Forecasting", the sales forecast is only one ingredient in the complex process of management decision making and cannot be isolated from the many other aspects of business planning. On the other hand, if it is viewed as a measure for past performance and a guide to possible future developments, the sales forecast can make an important contribution to the formulation of business strategy.

Mr. Braide is economic studies manager, Canadian Industries Limited. He joined the company in 1949 after receiving a B.A. in economics and political science from the University of B.C., and a M.A. in economics from the University of Toronto. He is chairman of the Moneco Forum and a member of the Canadian Political Science Association, the Montreal Economics Association, the National Association of Business Economists, and the American Economic Association.

H. J. CROFTS, C.L.U. (page 211)

Readers of *The Canadian Chartered Accountant* hardly require to be told that the need for a cooperative professional approach to estate planning cannot be emphasized too strongly. Because of the various ways in which insurance may be purchased or used, the advice of a life underwriter should be obtained and in "Life Insurance in Estate Planning – I", Howard J. Crofts discusses some of the many applications of life insurance in solving the problems of liquidity, retaining and securing competent management and creating a market for a business interest.

Mr. Crofts is a partner of Elder, Donaldson & Crofts, and his article has been written jointly with Andrew Elder and David Donaldson with whom he has been associated for 15 years prior to forming their present firm in 1958 to specialize in estate planning and employee benefit plans. He entered the field as a life underwriter in 1939 with the London Life Insurance Company and is well-known as a speaker and writer on business life insurance and estate planning. In the next issue Mr. Crofts will continue his discussion on estate planning, dealing with buy-sell agreements funded by life insurance and different methods of the ownership of life insurance from a tax standpoint.

B. H. BURNS, C.A. (page 193)

Shopping centres are a relatively new type of real estate operation and after 10 years of heavy activity, those involved in this field are still facing serious problems. Readers interested in a review of the subject may wish to turn to Bruce H. Burns's article "The Economics of Shopping Centres" in which he concerns himself with five of the major stages in this type of development which, if properly coordinated, can result in a successful operation. He is also concerned with the accounting features, tax implications and other aspects of financing, which are vital to any undertaking when it comes to assessing the value of the land. If a shopping

Continued on page 174

J. H. O'Neill, Purchasing Agent,
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Continued from page 172

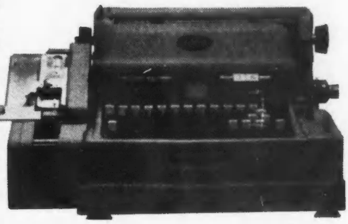
centre is successful, the land on which it has been built will be worth many times its original value; on the other hand, it could be worth nothing if the project was an unprofitable one.

Mr. Burns is assistant general manager and comptroller of Don Mills Developments Limited with whom he has been associated for the past three years. He was formerly assistant secretary of the Premier Trust Company, Toronto. He was admitted to membership in the Institute of Chartered Accountants of Ontario in 1950.

W. W. MUIR (page 198)

"Ideally, organization planning and management salary administration should go along hand in hand, and a case can be made for making both the continuing responsibility of the same executive." In a lead article under the title "Management Salary Administration" Wallace W. Muir, who established his own consulting business in Ottawa in 1953 under the name of W. Wallace Muir & Associates Limited, shows how this approach can be made to the problems of better salary administration and be consistent with effective organization planning. The author has had considerable experience in the field of salary administration, labour relations and management recruiting, and his firm specializes in these subjects. Mr. Muir graduated from Queen's University in 1938, and after serving overseas during World War II, he returned to Queen's to study industrial relations. From 1946 to 1952 he was associated with Ford of Canada as executive assistant to the vice-president, industrial relations. He is a member of the Advisory Council, School of Commerce and Administration, Queen's University and a member of the Editorial Advisory Board

Continued on page 176



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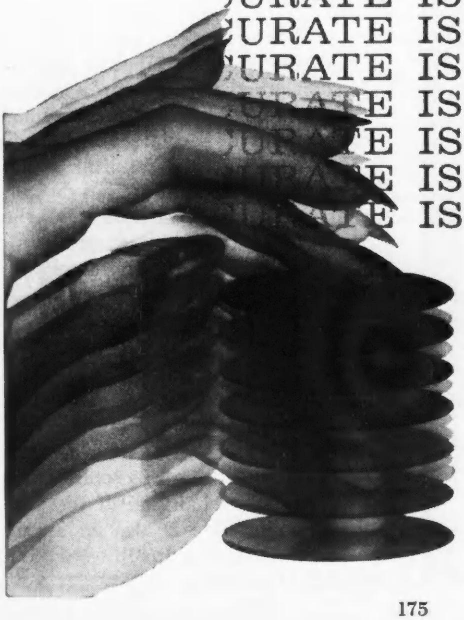

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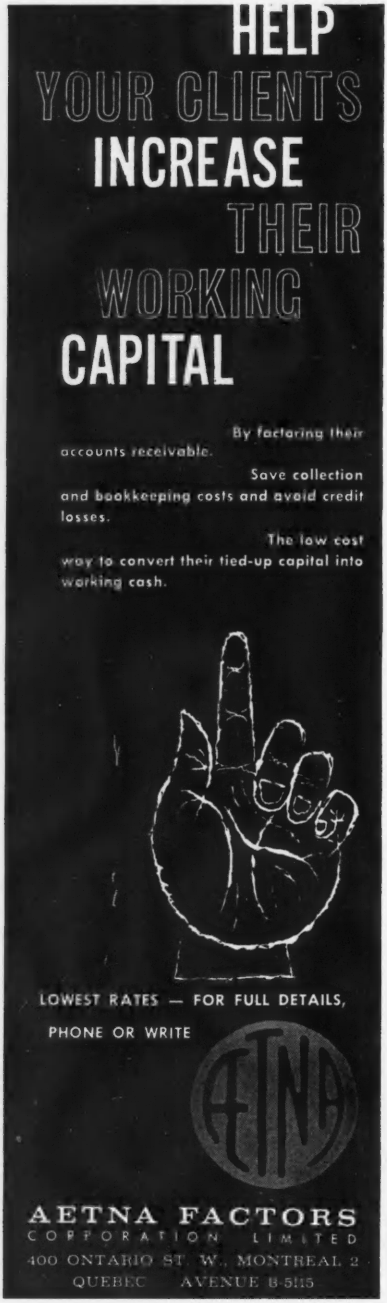

Continued from page 174

of *Office Equipment and Methods.* His article is an attempt to set out the reasons for systematic management salary administration; he gives a description of the techniques used and offers some words of caution on the limitations imposed by any formalized plan.

F. T. McKINNEY, F.C.I.S. (page 203)

During recent years Canadians have become more investment-minded, and the number of persons holding shares in public companies has increased enormously. As a result, company annual meetings have attracted more interest and larger attendance than in years gone by, says F. T. (Bill) McKinney. The annual meeting of a large corporation is in many ways a unique type of assembly and the company secretary, who is responsible for the arrangements, is the focal point of contact between the company and the shareholders. Regarding his article on "How to Prepare for Corporate Meetings", Mr. McKinney told the Editor:

> "While every member of top management in a company is vitally concerned with the presentation of the annual meeting, the accountant makes a special contribution. He is more than a reporter of figures; his responsibility goes deeper, and it is his presentation of the year's activities, through the financial statement, which gives the shareholders their true picture of the company's operations."

The author has been associated with McIntyre Porcupine Mines Limited for the past 25 years and since 1955 has been secretary of the company. He is a fellow of the Chartered Institute of Secretaries and immediate past chairman of the Toronto Chapter. He is also an associate of the Canadian Institute of Mining and Metallurgy.

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NOTES AND COMMENTS

Conference in Cuba

The Fifth Inter-American Accounting Conference will be held in Havana, Cuba from November 12 to 20. While the Canadian Institute of Chartered Accountants is not a member of the conference, we have been invited to send an observer, and the Executive Committee of the Institute has asked D. R. Lukin Johnston, F.C.A. of Vancouver to undertake this responsibility. Anyone wishing to attend the conference will be welcome, and registration forms can be obtained by writing to the Institute. Fluency in Spanish or Portuguese is desirable.

Bank Confirmation Forms

The standard bank confirmation form in use since 1946 has been revised, and the new form will be available by early October. Both the first and second sheets will now be of identical size, to eliminate the difficulty experienced in inserting the old form in a typewriter. The position of the name and address of the bank has been changed slightly to correspond with the window of a standard window envelope. There are also small technical changes in wording, and more space has been allowed in the boxes.

Our Olympic Representatives

Canada's 1960 Olympic team includes two chartered accountants. William Burgess of Vancouver is competing among the yachtsmen in Rome, and William Parish of Hamilton is the team's treasurer.

Committee Meetings

August 4-6 – Sub-Committee on Long-Range Educational Planning; chairman, W. F. Martin; in Toronto.

September 2 – Committee on Public Relations; chairman, R. D. Mackenzie; in Toronto.

New Management Course

A new evening course designed for experienced executives is being offered this year by the School of Business of the University of Toronto. Called "Management of the Enterprise", the course will give executives an opportunity to discuss general management problems with specialists in several fields and colleagues in other industries. It will be under the direction of Ralph Presgrave, vice-president of York Knitting Mills Ltd. and a special lecturer on the School of Business staff.

The course is one of six offered by the School, the other five being along more specialized lines. All courses consist of 20 weekly evening classes, each two hours long, running from mid-October to March. Registration closes September 30.

External Trade

Canada's domestic exports in the first half of 1960 reached a record value of $2,541,000,000 larger by 8.4% than last year's total of $2,344,500,000.

Brochure on Incorporation

"Incorporation and Income Tax in Canada" is the title of a useful 34-page brochure by G. W. Riehl, C.A., R.I.A. which has just been published by CCH Canadian Limited, 1200 Lawrence Ave. W., Toronto 19, Ont. The author sets out the tax implications of incorporation for small or medium-size businesses, and also considers such pertinent factors as right to contract, limited liability, transfer-

Continued on page 180

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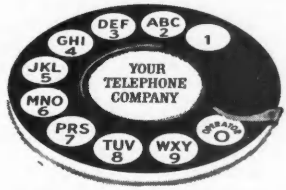

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Continued from page 178

ability of shares and the raising of capital. Price of the brochure is $1.00.

Canadian Conference on Education

The Canadian Conference on Education has prepared a publication entitled "Education for Canada's Future", copies of which are available, without charge, by writing to the Canadian Conference on Education, 85 Sparks St., Ottawa. The brochure concerns the second Canadian Conference to be held in 1962, the study program which has been planned for it and some developments in areas discussed at the 1958 conference.

AICPA Conference

The 1960 conference of the American Institute of Certified Public Accountants will be held from September 25 to 28 at the Bellevue Stratford Hotel, Philadelphia.

In the News

E. L. HAMILTON, C.A. (Que.), vice-president, Canadian Industries Limited, has been elected vice-president of the Controllers Institute Research Foundation. Mr. Hamilton has been active in the Controllers Institute since 1950 and is now vice-president of the north-eastern area.

DR. E. D. MACPHEE (honorary member of the B.C. Institute) has resigned as Dean of the Faculty of Commerce at the University of British Columbia to become assistant to the president in charge of finance and administration. Dr. MacPhee will be succeeded as Dean by Dr. G. N. Perry who has been assistant director of the World Bank, Washington, D.C.

J. T. BLACK, C.A. (Que.) has been elected president of the Montreal Control of Controllers Institute of America.

CURRENCY EXCHANGE RATES

The following nominal rates of exchange are supplied by The Canadian Bank of Commerce, International Department, Head Office, Toronto, as at 4 p.m., July 29, 1960:

Australia (pound) 2.19⅜; Belgium (franc) .0199; Denmark (kroner) .1424; France (franc) .1999; Germany (d. mark) .2347; India (rupee) .2062; Italy (lira) .0016; Mexico (peso) .0783; Netherlands (guilder) .2596; New Zealand (pound) 2.73½; Norway (kroner) .1374; Sweden (kronor) .1893; Switzerland (franc) .2275; Union of South Africa (pound) 2.74⅞; sterling in Canada, 2.73½-2.74½; sterling in New York, 2.80¾-2.81¼; U.S. dollars in Canada 2½-2⅝ discount.

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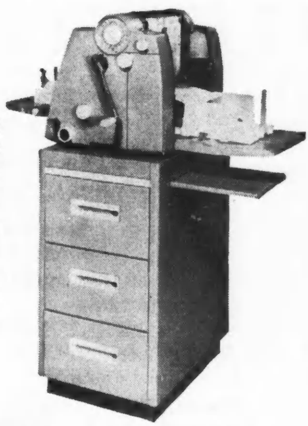

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CORRESPONDENCE

Toronto, Ont.,
August, 1960

Sir: It is not often that one can take issue with any of the material in your excellent publication or in *The Harvard Business Review*, but it seems to me that the quotation from "The Administrative Fallacy" by David McCord Wright (on page 133 of the August 1960 issue) contains at least two erroneous conclusions besides being an unwarranted slur on personnel directors and human relations people as a whole.

The incorrect conclusions or assumptions appear to be: (a) an organization which has reached the point of complete definition and clarification of every position can only attain this goal through the sacrifice of individual initiative and capacity of the organization structure to change; and (b) a formal statement of the organization freezes the status quo at this point of time and renders it unresponsive to subsequent inward or outward pressures.

Mr. Wright is tilting at windmills. Human nature being what it is, the dream organization which he fears so strongly is no more attainable than the economist's concept of general equilibrium. At the same time, the efforts of personnel managers and organization planners deserve a better interpretation than he has granted them. Lines of authority are not intended to be "chains", and rigidity or lack of flexibility are certainly not the goals of any sound organization planning program.

J. W. Vair, C.A., R.I.A.

Southport, Conn.
August 2, 1960

Sir: On page 147 of your August issue I find the following paragraph:

> "This passage makes clear the point most emphasized by American writers, namely, that accounting principles include not only the concepts or rules of general application but also the detailed procedures involved in applying them to specific situations."

As chairman of the committee which first recommended the use of the words "accounting principles" in the standard audit report in 1934, I suggest that this statement, however widely made, is unfounded.

There is no procedure by which a change in or an addition to accepted accounting principles can be made effective without formal submission to the membership and its adoption thereby. There has been no Committee on Accounting Principles since 1935; there has been only a Committee on Accounting Procedures, and the chairman of that committee said in an affidavit dated May 4, 1959:

> "As stated at p. 9 of the Introduction to Accounting Research Bulletin No. 43 (1953) . . . except in cases in which adoption by the Institute membership has been asked and secured, the authority of opinions reached by the Committee rests upon their general acceptability by members of the profession and upon no other basis."

No such adoption has occurred since the issue of the first bulletin in 1939. The present Board of Accounting Principles is a new creation.

I might add that the original report of 1934, which was approved by the membership, contemplated that principles would be laid down only as the result of cooperation with other bodies and not by unilateral action of the Institute.

George O. May, C.A.

East London, Cape Prov., S.A.
July 18, 1960

Sir: While walking through the library of the University of South Africa in Pretoria, I happened to see your Journal. Being an articled clerk to an accountant, and thus very interested in such a journal, I picked it up and started reading through it. I was very impressed by some of the articles which you published. May I ask you to be so good as to inform me as to how much I would have to subscribe annually to receive *The Canadian Chartered Accountant*.

L. Hofert

DO YOU KNOW?

Questions

1. **An 'ordinary beneficiary' named in an insurance policy may become a 'preferred beneficiary' by marriage to the assured.**
2. **A wife ceases to be a preferred beneficiary under an insurance contract as a result of divorce.**
3. **The interest of a preferred beneficiary under a contract of life insurance can be revoked by the insured.**

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Answers

1. **True**
2. **True, but divorce must have been granted by the Court of the husband's domicile or have been granted at the suit of the beneficiary.**
3. **True, but only in favour of another preferred beneficiary.**

(These answers are based on the Law of the Province of Ontario.)

Saving Time . . .

This is the age of speed . . . we find it in travel . . . in new manufacturing processes . . . in "paper work" . . . and in a multitude of ways to get things done faster . . . and better. In most cases saving time can be an advantage, but there are exceptions. One exception is the planning of an investment program. Here, too much speed might be harmful. To prepare an investment program suited to your needs requires careful planning.

Because each person's requirements are different, investment becomes a personal matter, a matter which should only be dealt with carefully and, preferably with the help of experienced people.

Providing investment advice is an important part of our business. If you would like us to help you design an investment program . . . or to select securities for your present program, we may be able to save time for you but, more important, we think we can help you do a better job.

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Editorial

THE INSTITUTE YEAR

IT IS EVIDENT from the 1959 report of the Canadian Institute of Chartered Accountants, which was published last month, that the Institute continues to prosper and show steady progress. The latest statistics of the membership and the finances of the Institute are certainly encouraging. The number of members as of April 30 of this year was 9,107, an increase of 555 over the number at April 30, 1959. Registered students of the ten Provincial Institutes at the same period totalled 4,929 or 181 more than in the previous year.

The operating statement of the Institute showed an excess of income over expense of \$16,799 as against \$21,989 for the previous year. Sales of publications, amounting to \$39,270, accounted to a large extent for the eminently satisfactory results. The accumulated surplus now stands at \$77,019.

The activities of the Institute in 1959 followed much the same pattern as in previous years. The Accounting and Auditing Research Committee maintained a high level of activity, and a number of important projects on which it has been working are nearing complettion. During the year Research Bulletin No. 17 was issued recommending a revised form of audit report, the principal change being the requirement of a definite statement of conformity with accounting principles and consistency in their use. The committee sponsored, also, the third edition of "Financial Reporting in Canada" – a 1955 and 1957 best-seller – and "Mining Accounting in Canada". Another important project which the Institute undertook was the production of a 12-page catalogue of Institute publications. It provides complete information on books, brochures, pamphlets and bulletins published by the Institute and should be welcomed by those who want to keep abreast of its growing list of publications. The second area of activity – keeping close watch on current tax legislation, which is a perennial one – was the joint brief submitted to the Federal Govern-

ment in February by the Taxation Committee and the Canadian Bar Association. Several of the budget proposals for this year can be related to the recommendations contained in the brief, and while none of the amendments is of major importance, the proposed comprehensive study of "designation of surplus" under the Income Tax Act may result in the simplification of the taxation of surplus and, if it does so, would be an important achievement.

The progress of the Sub-Committee on Long-Range Educational Planning and the Committee on Continuing Education which were set up last year has been watched with particular interest. The aim of the Institute to induce young people of higher education to become chartered accountants is reflected in the report of the former committee which has recommended that by 1970 prospective entrants to the profession should be university graduates. The emphasis, however, is not only on a superior standard of general education before entering the profession. The Institute also attaches great importance to a high standard of practical training after a chartered accountant has received his certificate. An ambitious plan has been recommended by the Committee on Continuing Education which was appointed to study the question, and an initial appropriation of $30,000 was authorized this spring as a first step in implementing the program. The 23-page report presents a new outlook on professional training and development and recommends, among other things, that the Institute, in conjunction with the Provincial Institutes, should undertake a formal program of continuing education, the main emphasis being placed on short courses at which specialized subjects of interest to chartered accountants in public practice, industry and government would be presented.

During his year of office Mr. J. G. Duncan, F.C.A., president of the Institute, visited the Provincial Institutes, as his predecessors have done, and had informal discussions with members on problems of concern to the profession. In addition, Mr. J. A. Wilson, F.C.A., first vice-president, visited New Zealand and Australia to attend the Asian and Pacific Accounting Conference which was held in Canberra and Melbourne. Reporting on his travels, Mr. Wilson made some pertinent remarks to the effect that Canadian accountants should be more in evidence at such gatherings, as the Canadian Institute has much to gain from being represented at international conferences and can also make a definite contribution to them.

It is impossible to overrate the importance of the Institute's continuing contributions to the accounting world in the fields of research, business literature, education and professional development, to name but a few. A great deal of time and thought is devoted to these matters by those serving on both national and provincial committees, and their work promises well for the future of the profession and for the Institute which enters another year with renewed vigour and confidence.

Sales Forecasting

DAVID I. W. BRAIDE

THE POSTWAR YEARS have seen a growing recognition of the possibilities of so-called "scientific management". While this development has important implications for the operating efficiency of individual firms and of the economy as a whole, many of its potential benefits are still unrealized even in companies that have made a deliberate attempt to adopt the techniques involved. The reasons for limited success are numerous and complex, and vary widely from firm to firm or industry to industry. A frequent source of difficulty, however, lies in the tendency to treat the various components of the scientific management concept separately, instead of integrating them into an overall plan to improve the decision-making process. One of the most important of these components is the sales forecast, and it is the purpose of this article to suggest an approach that may help in cases where a sales forecasting program is being contemplated or reviewed.

It should be made clear at the outset that no attempt is being made to provide a practical manual of sales forecasting. The techniques involved are for the most part readily available in published form for those who are interested in using them, and can be covered only in general terms in this article, which is devoted chiefly to the questions of the role, scale and organization of the sales forecasting function. The discussion is narrowed further by restricting it to short-term sales forecasting, i.e. up to a maximum of about 18 months. Finally, the suggested approach will be applicable mainly to the industrial corporation, although many of the principles set out in this article will be also relevant in other lines of activity.

The basic principles of the suggested approach to sales forecasting can be summarized as follows:

1. Sales forecasting should be treated primarily as a decision-making function.
2. The sales forecasting function must be properly integrated with the other phases of sales planning, with particular attention being paid to the relationship between its staff and line organization aspects.
3. The scale, term and nature of the sales forecasting effort should be specifically tailored to the requirements of each case.
4. The fact that the sales forecast will almost invariably be wrong to

some degree should be recognized and allowed for.

A Decision-Making Function

A sales forecast is a waste of time unless it leads to improved business decisions. The significance of this rather obvious statement is apparent when the sales forecasting function is viewed as one step in the process of planning. The chief purpose of planning is to minimize risk, first, by isolating the uncertainties that exist in the firm's outlook; secondly, by measuring and analyzing these uncertainties (preferably after stating them in quantitative form); and finally by "optimizing" the firm's activities in terms of the conditions which it seems likely to encounter in the future. The uncertainties with which this process is concerned lie mainly in those areas that cannot be readily controlled by the firm itself, such as borrowing costs, raw material prices, taxes and the size of the total market for the item being considered. The last or decision-making stage is concerned with how best to vary the internal factors over which a decisive influence can normally be exerted – the advertising budget, selling prices and effort, employment, operating rates, and so on. The sales forecast can only be arrived at after these decisions have been made.

It follows that difficulties will tend to arise if undue emphasis is placed on the first two stages of the planning process to the detriment of the final stage. The last calls for decisions concerning the extent to which future sales levels should be deliberately influenced, by altering selling prices or the advertising budget for example, so as to maximize profits or contribute to the firm's operating objectives in some other way. Also eliminated will be one of the chief potential benefits of a properly organized sales forecasting program, namely, the regular opportunity it should provide for assessing the impact of various marketing policies on sales and profitability. This benefit can be obtained regardless of whether the ultimate sales forecast is accurate or not.

The burden of the foregoing is that sales forecasting in the abstract, and simply for the sake of estimating what sales are going to be some months hence, is unlikely to be a profitable exercise. If, however, the sales forecast is viewed as the end result of an analysis of past performance, an evaluation of likely future developments in the firm's external environment, and an opportunity to make policy decisions in the light of this information, then it can make an important contribution to the "purposefulness" of the firm's activities.

Position of Sales Forecasting

The most important single determinant of whether the potential of sales forecasting is fully realized is the way in which the function is fitted into the organization of the firm. It is obvious that no single set of rules could be devised to fit every situation, but there are certain practices which should be followed wherever the characteristics of the company permit. Of these, by far the most important is to avoid any tendency to isolate the sales forecasting unit from the line organization of the company, or to make the entire sales forecasting process a self-contained specialized activity.

This is not to say that there is no room for the staff specialist in the forecasting scheme; indeed, the specialist, wherever one can be

justified, can play a key role in the process. His functions can include the analysis of past sales performance and the firm's competitive status; the forecasting of the relevant external factors that will determine future changes in the firm's markets (i.e. rates of activity in consuming industries, prices of competitive products, and similar considerations); and, generally, the fragmentation of the task into as many component parts as will be necessary for effective decision-making by management.

The staff specialist may, and usually will, also prepare a draft sales forecast himself, based on an evaluation of the future market for his firm's products combined with an estimate, or preferably a range of estimates, of the share of the market to be obtained. The range will not only allow for the uncertainties in the forecast, it will also incorporate different assumptions regarding future sales policy. In this way, management will be provided with a series of alternatives from which an appropriate choice may be made after all factors have been considered.

Finally, the staff specialist can provide a useful function as the coordinator of the final stage of the process, namely, the actual formulation of the sales forecast and of the management decisions incorporated in it.

Line Responsibility

The actual responsibility for formulating the final sales forecast will not, of course, be allocated to the staff specialist. In the normal case, responsibility should be in the hands of a line official (most often the top marketing executive), either alone or in consultation with his direct sales, merchandising and market development managers. This course of action has the advantage not only that it places the decision-making responsibility where it belongs, but also that it can be arranged to show up any bias which might tend to exist in a forecast emanating from any one group in the firm. The assumptions concerning future business and competitive conditions upon which the staff forecast is based should be made explicit, so that the individual responsible for the final choice will be in a position to make up his own mind on whether he agrees with them or not.

The fact that complete objectivity is impossible to achieve in forecasting work means that every effort should be made to isolate and appraise the inevitable bias. There are several ways of doing this. One technique which has been found successful is the preparation of forecasts in different units of the firm. For example, members of the sales force may themselves be called upon to predict sales on the basis of their general evaluation of the firm's prospects in their districts. Indeed, in many cases this is the only type of forecast prepared. Despite its advantages this approach incorporates a distinct bias of its own, and also suffers from the disadvantage that the assumptions upon which it is based are difficult to define with precision. This latter defect can sometimes be remedied by requiring each reporting salesman to stipulate his assumptions regarding such factors as the prospects of his customer industries and the likely competitive penetration of his products. Even where this is done, however, it will normally be useful to have a separately prepared forecast against which to weigh that provided by the salesmen.

Scope of Forecasting Effort

Almost any firm will benefit from the institution of a formal sales forecasting program, if one does not already exist (or from a re-examination of its present program if it is more than a few years old). The critical questions are "How much effort should be 'invested' in the sales forecasting activity, and how elaborate should the program be?" There can be few objective criteria for the solution of a problem with so many abstract or non-quantifiable elements, and the generalization that the amount invested should maximize the net return received can serve only as a point of departure. Nevertheless, certain broad principles can be of help in deciding whether the program should be simple or elaborate, cheap or expensive.

Of these principles, two are fundamental. The first is that the nature and scope of the forecasting effort should be specifically tailored to the firm's requirements, taking into account such factors as the nature and size of the business and the attitude of management. The mere duplication of the program of another firm is normally inadvisable, although some knowledge of the experience of other concerns in comparable lines of business will be helpful.

The second principle is that even if, on the basis of such factors as are mentioned below, it is decided that an attempt at accurate prediction would be either fruitless or of limited usefulness, a program of sales forecasting will still be desirable in most instances. The chief benefit of the sales forecast is frequently the result not of its accuracy but of the opportunity it provides for the evaluation of operating policies, for the early recognition of changes in the firm's competitive position, and for establishing a tangible goal for the sales organization.

Factors to Consider

The potential benefits to be achieved through a clearer picture of the short-term sales outlook will depend mainly on the type of business in which the firm is engaged. Broadly speaking, the greatest benefit will accrue where the business requires large inventory holdings; if its market tends to fluctuate widely from one period to another; if the firm is planning to initiate (or already has) an extensive program of statistical control over its inventories and production; or if the firm is in a type of business where sales can be significantly influenced by variations in pricing and marketing policies.

On the other hand, a firm with a characteristically small inventory position, or one that is selling in a market that is stable or dominated by a single purchaser such as the government, might be able to justify little more than a rudimentary short-term forecasting effort. An examination of the past record with a view to evaluating whether greater knowledge of "forecastable" developments would have been of major or minor benefit should help in deciding on the appropriate scale of effort.

Another important consideration is whether the elements governing the firm's markets can be predicted within reasonable margins of accuracy. Careful analysis will usually show that the margin of error can be reduced by means of a market or sales forecast. Thus a preliminary examination of short-term fluctuations in the firm's market may reveal useful relationships with certain economic or industrial indicators. If forecasts have

been made in the past, analysis of their accuracy to determine whether they have consistently erred in one direction or another may also be helpful.

It should be emphasized that the purpose of these activities should not be to decide whether or not a sales forecasting program should be undertaken, but rather to decide on the amount of effort to be put into the program initially. If the criteria suggested do not provide encouraging conclusions, a limited program will still be worth considering, and the results may be surprising.

Interpretation of the Forecast

The only sure thing about a sales forecast is that it will not be precisely accurate. Failure to allow for inevitable variations from the forecast can lead to grave errors in policy and jeopardize the entire forecasting project. Policies adopted as part of the sales forecasting program should provide sufficient flexibility to prevent errors from being really disrupting to the firm, or should at least be decided on the basis of an informed knowledge of the degree of risk involved that the forecast will be off the mark. A proper appreciation of the likely errors of any prediction will help to place the emphasis of a sales forecasting program on the analysis of past performance as a basis for the formulation of strategy for the future. Management awareness of this concept will prevent the success of the entire program from hinging on its most vulnerable aspect, accuracy.

It is, of course, desirable to make every reasonable effort to reduce forecasting errors, subject to the overall limitations of the budget. Highly advanced or sophisticated techniques will not necessarily be the best way of achieving this end. While forecasting techniques have shown improvement over recent years, the most dramatic advances have taken place in ways to apply the forecast to company operations. There is real danger in over-estimating the value of some of the more novel forecasting methods. Their potential lies largely in the future, and undue reliance on them at this stage of their development should be carefully avoided. The day when a business enterprise will have an accurate foreknowledge of the behaviour of its market over the swing of the business cycle is still distant.

These remarks should not be construed as opposing experimentation once familiarity with the problems involved has been acquired. Many firms have yet to make much use of the well-tried multiple correlation technique as applied to short-term forecasting problems. Newly developed seasonal adjustment methods are another example of a potentially powerful tool for the analysis of sales records, the detection of emerging trends and the operational application of the sales forecast. Finally, operations research techniques have proven their value as a means of "optimizing" a firm's activities in terms of an expected future course of events. The point is, however, that what might be termed "mechanical" techniques have so far proven their reliability more in the analysis of the past, and in the application of the sales forecast, than in the preparation of the forecast itself.

Part of a General Plan

Sales forecasting is only one ingredient of the complex process of management decision-making. Even in its broadest sense, it cannot be con-

sidered in isolation from the many other aspects of business planning, and the extent of its usefulness will largely depend on the degree to which it is properly placed in the broader scheme of things. This suggests that the institution, or revision, of a sales forecasting program should preferably be undertaken as part of a general plan to improve the decision-making efficiency of a firm. Such a plan is bound to be complex and difficult to formulate, particularly since many of the concepts and techniques involved are novel or only dimly understood by the non-specialist. In some instances this will mean that recourse to an outside consultant, rather than dependence on the firm's own resources, will be desirable.

Making Experience Valuable

Experience as a teacher is positive but is one of the slowest ways known to change behaviour. However, experience can be made richly educational if emphasis is on "what happened and why" and on the knowledge or skill needed to do better the next time the situation occurs. Perhaps a specific case will serve to clarify. One company, with a sincere and determined effort to develop its people as the fundamental means of attaining its profit objective, established extensive programs of rotational job training. Their versatile men they set out to develop by moving them from job to job —generally upward — as opportunities developed. This meant that there frequently were years of apprenticeship and a rather high mortality rate among such of these who did not find themselves challenged and consequently sought challenging assignments elsewhere.

In time, this company came to what must be much the same realization the military seems to have reached a century or more ago: that development of officers must be done in ways distinct from those which develop enlisted men. Today, this company gives its versatile men problem-solving assignments rather than rotational training. By careful administration they are able both to expose these men to all areas of the company's operation in real depth and also to have them effectively contributing to the company's operations. At the same time, this company continually evaluates all its people and, when a man initially hired for relatively routine work indicates that he has the characteristics and the aptitudes, he will be moved to this group of analysts or problem solvers, just as the enlisted man may undergo officer training. Thus, by establishing a nucleus of versatile men kept effectively engaged in tackling specific but real problems of the company, a means of rapidly developing these men was found.

— Charles S. Bell, "Wanted: Qualified Accountants for the Opportunities Ahead", *NAA Bulletin*, Sec. 2, July 1960.

The Economics of Shopping Centres

BRUCE H. BURNS, C.A.

THE SCIENCE of shopping centre economy could be discussed with a great deal more finality in 1980 when we will be experiencing maturity, instead of in 1960 when shopping centre operations and investment are still in their infancy. However, certain planning and operational practices have evolved which have proven economically successful during the brief existence of this type of operation.

The term "shopping centre" is used to define a group of retail stores in a coherent unit, situated so as to attract vehicular traffic on to immediately adjacent parking, all of which is operated as one entity. There are basically three types of shopping centres. The first, more properly designated a convenience or neighborhood centre, normally comprises five to 15 retail stores, the basic sales potential arising from a food supermarket. The second is an intermediate or community shopping centre, normally a group of 20 to 40 stores. It should satisfy all basic shopping requirements, and might well include a few specialty stores and a junior department store. The largest shopping centres, commonly known as "regional centres", usually contain one or two department stores, one or more food supermarkets, and a large variety of smaller stores, all providing the distinct advantage of competitive shopping.

While the type or size of a shopping centre should be commensurate with the retail volume within a trading area, the problems of planning, engineering, financing, merchandising and operating are generally applicable to them all.

Although the success of a shopping centre largely depends on the success of its merchants or tenants, the economic risk entered into by the tenants, as to term of lease, contractual commitments over the period of lease, and initial capital investment, is relatively small when compared with the risk taken by the developer. It is, therefore, largely the decisions of the owner or developer that determine the success or failure of the centre.

There are five major stages of development and of operation of a shopping centre, all interdependent at one time or another.

Planning

Planning encompasses the detailed study of desirable location, size of buildings and parking lot, and siting of the buildings on the land chosen. This study will take particular note of such fundamental requirements as

road patterns and accessibility, family units, population and spending habits within the projected trading area, existing competitive shopping and future trading areas. The purpose of the study is to direct the developer towards the production of an economic shopping unit properly situated in the best location.

Engineering

Sub-soil tests, availability of sewers, water and other utilities, investigation of grading and siting problems will lead to a total construction cost of the building and the parking areas, as suggested by the planners for the proper relationship of sales space and customer convenience.

Financing

As in other real estate ventures, the shopping centre has proven a worthwhile investment for mortgage funds. Since probably the only known factor in assessing a real estate investment is the amount of cash equity available, the mortgage loan appraisal often determines the other questions arising from studies made by the developer. Where a mortgage is required in constructing a shopping centre, the mere physical valuation of the project may be of small concern to the lender. He is primarily interested in security, project potential and tenancies, and his valuation of land and buildings may vary widely from that used by the developer in both the acquisition of the property and the projected size of the shopping centre. As contrasted with mortgage loans on other types of real estate, the mortgagee requires an assignment of all leases. He is interested, therefore, not only in the physical valuation of the property but in the merchandising experience and financial stability of the tenants. In addition, he will make an appraisal of the ability and financial resources of the developer, who is the person or entity responsible for repayment of the loan in the ordinary course of business operations. We have then a continuing triangle: the developer, the mortgagee, and the tenants, each depending on the others for economic success.

Merchandising

Detailed market research and management experience will determine the type and variety of tenants required, and the arrangements of the sales and storage areas for each tenant. If a shopping centre is not accepted by the public because of its physical appearance, merchandising inability of the tenants, or lack of variety of stores, it will have an extremely difficult life, notwithstanding satisfactory planning and operation in all other phases. The actual choice of a tenant for a particular store must, of course, rest with the management, who has particular regard to the ability of the tenant to pay rent during the term of his lease while generating reasonable sales volume.

Operation

After satisfying all other problems inherent in developing a shopping centre, the owner is faced with perhaps his most difficult task — the long-term operating policy and management of the completed project. Having made the basic decision as to whether he will personally manage and operate the centre or employ an agent to supervise the day-to-day operations, the owner has the opportunity of controlling his future destiny, by controlling the overall operation of the centre.

Monetary Considerations

The monetary aspects of financing, merchandising and operating encompass construction costs, mortgage and equity, income and operating expenses.

The object of shopping centre investment by the owner is the protection and security of the owner's equity, the reasonable return through dividends or interest on his investment, the recapture of his investment, and its enhancement through increase in capital value of property. Increase in land value can only result from successful operation of a shopping centre over the years, and it would be imprudent to commence the development of a shopping centre with the prior knowledge that the operation, from commencement, must rely upon increasing capitalized value for its continuing existence. However, a long-term and detailed forecast of the financial operations of the project can determine its worth respecting the other objects of investment. Comparison with other standards such as cash return on equity and rate of return on investment can best be made by examining a projected cash flow during an initial term of say 15 to 25 years. These results can be compared at periodic intervals with other risk investments.

Projection of the Cash Flow

Cost, Debt and Equity

Capital cost of land, buildings and parking areas, debt interest and repayment terms, and cash equity can be reasonably plotted after the planning and engineering studies have been completed and initial discussions held with prospective tenants. With respect to cash equity required by the owner, one of the most serious problems to be avoided, and one which can only be anticipated by examination of a comprehensive forecast, is the possibility of having to introduce additional equity into the project, after commencement, by reason of operating deficits arising through unfavourable debt retirement terms.

Income

While a very competitive market exists in procuring desirable tenants and the developer is limited in the amount of rent he can command, depending upon the sales potential of the proposed shopping centre, he is nevertheless able to arrive at a conservative estimate of the rents which he will be able to attract. In all but a few instances, shopping centre leases call for the payment of basic or minimum rent or a percentage of sales, whichever is the greater. For example, a lease may call for annual minimum rent of \$6,000 per year or 6% of sales, whichever is the greater; an equation is reached when the tenant's sales for a lease year amount to \$100,000. Beyond this sales level the tenant pays, in addition to his minimum rent, 6% of sales in excess of \$100,000. In comparing two shopping centres with identical sales volume, there is the anomaly that low minimum rents in the one centre will produce higher percentage rents than the other centre attracting high minimum rents. It may be assumed, however, because of mortgage requirements and the wish for higher security afforded by reasonable minimum rents, that a target annual rental income is used in the long-term financial analysis without regard to percentage rental income. (Certainly, an investment appraisal of a shopping centre which has been in existence for

a reasonable period of time should take into account a conservative estimate of percentage rental income, if any has regularly been earned in the immediately preceding years.) It must also be assumed that the stabilized flow of rental income will be reflected throughout the long term, notwithstanding the expiry of some of the shorter leases. The use of this stabilized rental income throughout the period would be a conservative estimate in view of inflationary trends and exclusion of percentage rental income.

Operating Costs

In addition to funds required over the period for interest, periodic repayment of debt and return of equity, careful scrutiny must be given to projected operating costs, i.e. property taxes, property repairs and maintenance, insurance, advertising and promotion, management and other overhead. In considering these projected costs, it would appear that inflation would be disastrous for the owner who is bound by 10 to 20-year leases. It has been the practice, however, to limit the owner's exposure to inflation on property taxes and common area maintenance. In the former, the tenants are normally required under the terms of their leases to pay the increase in property taxes over a predetermined base year proportionate to their rented area. In the latter category, for a number of reasons, the tenants share proportionately the major costs of operating and maintaining the common areas, that is, the parking areas, sidewalks, common hallways and washrooms. Structural repairs, ordinary wear and damage to the buildings are, of course, a cost to be borne by the owner.

The base and continuing property tax obligation of the owner can be determined by reference to assessment practice and valuation of land and buildings in the chosen municipality. A projected mill rate is then applied to the total estimated assessment, and consideration is given to any local improvement rates chargeable against the land in arriving at the estimated annual property tax expense.

Structural or extraordinary repairs and maintenance for the account of the owner can be fairly projected having regard to similar realty operating experience. During the first few years of operation, however, it is well to provide for minor structural and site changes that become obviously necessary to facilitate sales volume and traffic. This allowance is, of course, distinct from the normal construction contingency required in any construction budget. Insurance and management overhead expenses will be determined by the operating policy chosen by the owner, and the only item in this category which is not at the owner's discretion is the mandatory insurance coverage required by a mortgagee.

Advertising and promotion expense is, at the very least, a controversial item in preparing a long-term analysis. Perhaps the most expedient way of estimating these costs over the long term would be to include a liberal provision based on projected rental income throughout the term and assume that any additional expense required to maintain or increase sales volume would be withdrawn from percentage rental income. Outlays of a non-recurring nature, such as leasing fees and initial legal and promotion costs, should also be reflected in the first operating year of the study term.

Questions to Ask

By segregating the applicable income and expenses and applying allowable depreciation rates on fixed assets, the taxpayer's income tax liability can also be reflected throughout the analysis. Having then charted the entire estimated cash flow, the owner can return to his basic question as to whether the investment provides the security, earnings and rate of return commensurate with the risk and effort involved. Doubtless the initial study will show shortcomings, and possibly the following questions will commonly be asked of any suggested changes to the initial plan:

1. Would less expensive land cost at an alternative site produce the same sales potential, tenants and rental income?
2. Would a smaller or less expensive building and parking area affect sales volume and rental income?
3. If the above changes were made, would they affect the size, term and interest rate of proposed mortgage financing?

The development and operation of shopping centres after some ten years of heavy activity are still facing problems. However, patterns are developing whereby experienced developers have eliminated a great portion of guesswork from initial planning; they are better equipped to assess sales market data and size of contemplated projects, design and merchandising layouts, and policies for long term operating success. The industry has evolved into one where the specialist is the owner most likely to succeed while the inexperienced enters the field with many more opportunities for economic mistakes.

The Accountant and the Profit Program

The organization that wants to plan intelligently needs a "diagnostic clinic". It needs someone who understands the economic functioning of a business entity, and the manner in which the various functional parts act, interact and react to different conditions and stimuli. It needs someone who can pick out the strong points and weak points of the company's condition, and detect any outside influences or internal malfunctioning which may threaten the overall soundness and future financial health of the enterprise. It is the role of "diagnostic clinic" which the accountant should fill in his company's long-term profit planning program.

— Marshall K. Evans, "The Accountant's Role in Long Term Profit Planning", *N.A.A. Bulletin*, July, 1959.

Management Salary Administration

W. WALLACE MUIR

In the large company, a formal salary administration plan which includes management salaries is essential and almost unavoidable as a means by which senior executives can set salary policy and delegate its orderly execution to subordinate levels of management. The plan does not automatically solve the problem. The administrators of the salary structure inevitably become specialists, are apt to become a vested interest in themselves and, as one executive vice-president in a very large Canadian company recently remarked, tend to be "a damn nuisance"!

He might have felt more charitable toward the administrators if it were not that management salary administration in most companies, including his own, is considered to have no direct relationship to organization planning. Yet effective control of management salary costs requires more than the orderly process of management salary administration. There is little merit in paying a manager an amount commensurate with his defined duties in relation to the going market and to established differentials within the company, if his position as defined is organizationally unsound.

Unfortunately the problem of management salary administration is rarely treated as preventive maintenance. The problem tends to be urgent before it is tackled, and consequently there is rarely time to examine the organization structure critically before installing the salary administration program.

Ideally, organization planning and management salary administration should go along hand in hand, and a case can be made for making both the continuing responsibility of the same executive at the policy level.

Within the limits of this article, it is not possible to do more than mention the importance of organization. The attempt here will be to set out the reasons for systematic management salary administration, together with a brief description of the techniques used and some words of caution on the limitations of formal salary administration.

Why Salary Administration?

The amount that has been written and said on the subject in recent years testifies to the need for and the difficulty of achieving better management salary administration. There is no easy escape from this difficulty, whatever the size of the company.

The problem may manifest itself as nothing more than a niggling uncertainty in the chief executive's mind as to whether he is getting the most for his management dollar. It may be more aggravated and show up in general management discontent and bad morale or in excessive loss of trained personnel, particularly in middle management.

One frequently encounters the notion that a systematic approach to salary administration means a higher management salary cost for the company. This is not necessarily so. It is true that if a company's management salary structure is too low, resulting in excessive loss of personnel and bad morale, then the cure is going to cost more money. The objective of salary administration is not to achieve lowest management salary cost, but to achieve lowest management cost consistent with the desired operating result.

The most important single point for the executive to keep in mind, when considering any salary administration, is that all schemes of salary administration involve judgment. Therefore there is the possibility, indeed the probability, of error. There is no mechanically perfect scheme which will automatically provide effective salary administration, and there is no such thing as perfection in salary administration.

The Human Element

Management must surely weary of reading technical articles on salary administration which would seem to suggest that if a formal job evaluation program is carried out, and if the resulting system is administered by experienced personnel, the weaknesses of human nature will be nullified and there will be absolute fairness, lack of prejudice and a high standard of justice in the administration of salaries in that particular company.

Nothing could be further from the truth. The incompetent manager before job evaluation is likely to be equally incompetent after job evaluation. Human nature is not going to be changed by the formalization of salary administration or the lack of it. Nonetheless, a good salary administration plan will reduce considerably the effect of the human weaknesses of management. Prejudice and subjective decisions will be combatted by the analytical techniques of salary administration. The overall standard of fairness will almost certainly be improved, as will the effectiveness of the expenditure of the management salary dollar.

The management employee will know, or should know, the limit of value which his company places on his job. He will continue to bargain, if he is so inclined, for as favourable a position within that range as he can achieve, and some will continue to be better at negotiating increases than others. Nonetheless, here too, inequities will tend to be minimized, and there will be a greater degree of rational consideration given to the value to the company of the services of each management employee.

Logical Approach

What, then, is the logical approach to this problem with special reference to supervisory and management personnel in the medium-sized company? The best scheme will be readily understood by all concerned, will take the least amount of time and lend itself to continuing effective administration. It may, however, be well to caution the unwary that even the most straightforward approach requires experience and judgment.

If there is reason to believe that the management salary structure is unsound, a salary classification and position evaluation program should be undertaken, and the best available person should be assigned responsibility for the program.

Since there is no such thing as a

mathematically correct answer, the techniques of analysis are best kept uncluttered. The simplest approach is a ranking procedure. Like all evaluation procedures this one relies for its effectiveness on an accurate description of the job itself. Note that the description is of the job, not of the incumbent. (Performance determines how much the incumbent should be paid within the range established for the job, but the range itself is determined by the requirements of the job).

Job Descriptions

The difficulty of describing a management job accurately is generally underrated. Most of us tend to assume when we hear the title of a job that we know what the job entails. A department manager is a department manager, just as Gertrude Stein's rose is a rose: but there are many variations of the rose, and almost as many of the duties of a department manager. A purchasing agent, who is probably a department manager, may be doing his own clerical duties in one company, and he may be vice-president in all but name in another. The smaller the company, the less important this problem may be, because one executive may be in the happy position of knowing positively from his own experience exactly what each member of management is required to do, and what in fact he does do.

As the number of management employees in a company increases, however, this ceases to be true. Many an executive, who thinks he knows the requirements of each job as it now exists, deceives himself. Moreover, even if he does know exactly what each management employee is required to do in his organization, when he goes outside to check his salaries against those paid by companies competing for the same skills, he should discuss the positions in terms of accurate descriptions, rather than by name, otherwise there will be a high risk of error. Effective salary administration is almost impossible without accurate job descriptions, particularly where multi-plant operations are involved.

Beware of the job description which looks accurate but is really a neatly collected group of generalizations. The description must clearly delineate the position in such a way that its duties can be readily distinguished from, and assessed against, those of other positions which may to the casual observer look similar, if not identical.

Ranks and Ranges

With good job descriptions, a competent executive can rank the positions in order of their importance to him. The simplest way is to have a separate card listing each position and then to arrange the cards on top of a desk to reflect the order of their importance to the executive. This simple ranking can be checked with other executives, and the rankings of one division can be readily compared with those of another. This is an overall comparison of jobs and is accomplished by informal appraisal of differences in terms of knowledge or skills, responsibilities, effort required and perhaps working conditions. Usually a final ranking is undertaken by a small central committee who should be conscious both of salary administration *per se* and of its relationship to organization planning.

When a company is satisfied that it has come to a reasonable judgment as to the relative value of the management positions within the company,

these must be assigned salary ranges. These ranges must enable the company to attract the required skills, and should be sufficiently broad to enable the company to reward employees within each range according to the degree of their effort and according to their effectiveness.

Before these ranges can be set, a community or industry survey should be undertaken. The breadth of the survey will be determined by a company's location and whether it has one or more plants or locations. In making the survey, quality is all-important. A modest amount of accurate information is far more useful than a trunk full of questionable data.

Variety of Schemes

In comparing management salary rates, one of the principal problems is the variety of remuneration schemes now in use. It is tempting to consider total remuneration rather than salaries. This may lead to serious errors. In general all bonus schemes should be regarded as means of rewarding outstanding performance, and not as entering into the basic salary structure. One very large Canadian company, which instituted a supplementary remuneration plan some years ago, ignored this dictum, arguing that comparisons should be based on total remuneration including bonus payments. As a result management salaries were held under rigid control. Well-trained management personnel of this company have been fair game for industrial recruiters representing companies paying better base rates, but not necessarily higher total remuneration. At the time of writing the error is about to be corrected at a substantial annual cost.

When all of this has been accomplished, the management salary structure of the company has been rationalized. It is not *absolutely* correct, fair, or wise; no such standard exists. But the salary structure has been examined critically and systematically, using some tried and tested tools which have been found of considerable assistance in reducing the likelihood of inequities and of uneconomic expenditure of the management dollar. What then? The salary structure is a dynamic thing, subject to many pressures and certain to require changes. Except in very large companies, no one is likely to continue this work on a full-time basis; yet if no continuing attention is given to the salary structure, it will gradually deteriorate in effectiveness. Changes occur in conditions outside and inside the company: new positions are created and old ones change in importance.

The determination of actual rates is, of necessity, pragmatic. The rate must seem fair and reasonable to employees concerned, must accord with established differentials within the company and with practice in the community or area from which the class of ability is recruited. Temporary deviations from rates established by job evaluation will be found to be necessary in some circumstances, and this should be faced.

Someone in the organization will have worked through the detail of the study. He will understand the approach used; he will know the difference between a job description which delineates the duties of the job, and one which looks like a good job description, but is not. He will have made the contacts to enable him to exchange information with other firms using comparable talent, and will know how to go about fitting a new

management position into the existing salary structure.

Merit Rating

One other device is helpful in administering the salary structure with as much fairness as can be achieved. This is a merit-rating plan. The salary of each management employee within the range of salaries established for his job should be determined, in so far as is reasonably possible, by merit. Length of service will undoubtedly enter into the decision, but its influence should be minimized, except as such service truly increases the value of the employee to the organization. Merit-rating plans look simple, but are not. Good ones are difficult to devise. The objective of the merit-rating plan is to cause the manager to consider the performance of each employee concerned, carefully and systematically, and to minimize distortion due to bias of one kind and another. Here again, it is not the appearance of the system that counts. It is whether or not it does in fact cause the manager to think more critically, more objectively and more systematically about the performance of each associate who reports to him. Beware the slick approach; disregard the appearance of the document and keep asking: does it work?

It is assumed that some responsible executive in the organization, possibly the industrial relations manager, treasurer or general manager, will keep an eye on salary administration. Whoever has this responsibility, and there is much to be said for giving it to the industrial relations manager (if he has the necessary experience and is also concerned with organization planning), should review salary changes, and be responsible for keeping them within the approved salary structure. Since salary administration is always and inevitably a matter of judgment, a second opinion is frequently helpful. Moreover, since there are no absolutes, every time a management employee discusses salary with his superior, the superior, whether he is conscious of it or not, is negotiating salary with his associate. Here again, a second opinion is often helpful to both parties, and may be the difference between good and bad morale.

Whatever system of salary administration is used by a given company, there is only one test: does it work? It works if a company has an adequate supply of the management skills it requires, good morale and satisfactory operating results. No system is likely to work unless there is a general willingness throughout management to pay justifiable rates and a willingness to discuss the fairness of any salary with the man or woman concerned.

If management salary costs are to be kept under control, however, as has already been indicated, effective salary administration, by itself, is not enough. It must be combined with effective organization planning. Otherwise the empire builder, by appointing assistants to himself, may find it possible to force his own rate up in the interests of a satisfactory differential. This, of course, is the working of Parkinson's (first) Law, a familiar and not always facetious phenomenon to the corporation executive.

Effective management salary administration, it can be seen, relies on relatively simple techniques which require good judgment, ability to collect and interpret the facts and a cooperative mental attitude by all concerned.

Preparing for Corporate Meetings

F. T. McKINNEY, F.C.I.S.

PREPARATIONS FOR corporate meetings rest on the shoulders of the secretary whose responsibility it is, as an officer of the company, to make advance arrangements, plan procedures, call the meeting as directed and, as far as possible, see to the smooth conduct and completion of the business. An intimate knowledge of the letters patent, supplementary letters patent and by-laws of the company, and the legislative Acts under which the company is administered is imperative.

As a going concern, every business corporation holds two kinds of meetings: directors' and shareholders' meetings. To these might be added executive, finance and other committee meetings. The nature and extent of the preparations depend on the type of meeting to be held. So that the deliberations will not suffer nor the validity of decisions be jeopardized, the corporate secretary must be cognizant of the governing statutes, court decisions, customs and usage. He must also be aware of the necessity for meticulous attention to detail in fulfilling the technical requirements. This article has been written with particular reference to companies incorporated by letters patent although the principles apply generally to companies incorporated under memorandum of association.

Committee Meetings

Executive, finance and other committees of some corporations meet at regular intervals at a fixed place, and notice may not be required except to inform a new member. If, however, the interval between meetings is long or irregular, or if the standing orders make it necessary, notice is given by mail or telephone reminder. The form of notice, agenda and preparations for directors' meetings discussed below can be adapted with slight variation to committee meetings. The secretary is no less scrupulous in his attention to the details of the latter, in accordance with the degree of formality obtaining.

Directors' Meetings

Although certain corporate acts can only be taken if approved by the shareholders, the general management of the corporation, including its financial affairs, is entrusted to the directors. In turn, the administrative functions of the enterprise become the responsibility of the officers as the directors' appointees.

It is a legal principle that the powers of the directors are given not to any individual director but to the whole of the directors; hence directors must meet together in order to discharge their duties. They must also act together as a board and, subject to the availability of a by-law to make binding a resolution signed by all the directors, they must meet in some place where all may be present and

have the opportunity to express their assent or dissent.

The steps in preparing for directors' meetings may be listed as follows:

1. Compilation and gathering of data to be presented at the meeting.
2. Sending the notice of meeting in accordance with the by-laws.
3. Writing up the agenda.
4. Arranging for the payment of fees.
5. Making preparations to record the minutes.

Between meetings of the directors, the corporate secretary collects in a folder, given some suitable designation such as "agenda data", all material pertaining to matters to be discussed at the next board meeting. Where indicated, the data is summarized, approvals added, draft resolutions for board consideration attached and other details arranged to enable the prompt despatch of business by the directors. If the declaration of a dividend is anticipated, the necessary resolution is included, and copies of the proposed newspaper announcement and notifications to the relative stock exchanges are prepared in advance. It is not unusual to include draft preambles to resolutions to assist in the subsequent preparation of the minutes.

Notice of Meeting

The by-laws generally specify who has authority to call meetings of either the directors or shareholders, and the method, time and place of calling. In the absence of such direction, guidance must be sought from the governing Companies Act since the penalty for anything less than strict compliance with the requirements as to notice is possible impairment of the validity of the meeting. A tentative date having been established, a telephone call to the directors is useful in ascertaining whether the date is convenient. If the answers indicate that a quorum will not be present, the cost of needless travelling and attendance expenses, to say nothing of inconvenience, can be avoided through postponement.

A variety of methods of formally notifying the directors is available to the secretary. A notice pre-printed on cards or slips of paper with blanks for date, time and place is sometimes employed, but the more usual notice is typewritten on the letterhead of the corporation. Notices on coloured stock may be used to indicate a special meeting, and the inclusion of a return postal card on which the directors can indicate whether or not they will attend is sometimes helpful.

Formulating the Agenda

The "agenda", or formal program of business to be dealt with, is developed in discussion with the chairman. Supporting the agenda is the agenda data file. It is of considerable assistance for the directors to receive, a few days in advance of the meeting, some indication of the specific matters to be discussed. Thus, it is customary for the secretary to mail either concurrently with the notice, or soon thereafter, a preliminary agenda together with a copy of such supporting agenda data as is appropriate and necessary to provide groundwork for proper deliberation. If minutes of the previous meeting have not been circulated, they may be included with the preliminary agenda as an item to be considered at the forthcoming meeting.

The routine business might be listed as shown below:

A G E N D A

For the Meeting of the Board of Directors

To be held . . . . (date)

Page No.

1. Call to order by the chairman.
2. Reading and tabling of notice of meeting by the secretary.
3. Announcement by the chairman that the meeting is properly constituted and may proceed to business.
4. Reading by the secretary and adoption of the minutes of the previous meeting.
5. Consideration of business arising out of the minutes.
6. Reports of committees:—
   (a) Executive committee
   (b) Finance committee
      (i) Declaration of dividend.
7. Other business
8. Adjournment.

The order of business should "flow" logically and in sequence. It will vary from meeting to meeting depending on the business to be transacted. Furthermore, the agenda and the agenda data should be in such form that each director can easily follow the agenda and refer to the supporting data with a minimum of confusion. This is accomplished by numbering the pages of the agenda data, with the corresponding numbers indicated on the agenda, so that the agenda then serves also as an index of the agenda data. A second step is to bind all material to be placed before each director in a cover folder with the particulars of the meeting appearing on the outside. Clipping all the papers together renders their handling much easier. A further refinement is to attach the agenda paper, typed on the right hand side of a double-size sheet of paper, under the agenda data. This is folded in two to conform to the width of the agenda data which is on top. When opened out to the right, the agenda or order of business is in front of the director throughout the meeting unobstructed by the agenda data. The agenda data sheets are attached in the binder so that they will unfold to the left.

Fees and Expenses

Directors' fees and expenses are, in many instances, arranged on a quarterly, semi-annual or even annual basis, with attendance at board meetings bearing little, if any, relationship. However, the question of travelling expenses, if not inherent in the fees, must be brought up before the meeting so that any necessary requisitions can be handed to the cashier in proper time.

Minutes

Minutes of a meeting, when signed by the chairman of that meeting or of the next succeeding meeting, become the *prima facie* evidence of what took place. Accordingly, the responsibility of the secretary in the drafting of minutes is great. Although it is true that the minutes of a meeting constitute a record of what was done, as opposed to what was said, it is nevertheless important that the notes taken by the secretary at the meeting should be sufficiently complete to enable him to add substance

to his record and recapture the true sense of the meeting. The agenda data, prepared to assist the secretary to the full during the meeting, will prove its worth in the preparation of the final record.

Shareholders' Meetings

In any consideration of corporate affairs, it will be remembered that ultimate control of a company rests with the members or shareholders, and the statutes impose responsibilities with respect to their meetings. Participation by the shareholders in corporate functions is a right zealously guarded by the courts, and the fulfilment of the legal requirements is employed by management in furthering the philosophy of corporate democracy. Although the directors have power to conduct the ordinary business of the corporation independently of the commands of the shareholders, certain rights are reserved to the shareholders as the true proprietors of the enterprise. These rights, which vary in different jurisdictions, are the subject of distinct statutory definition and control. For example, unless the letters patent, supplementary letters patent, or by-laws of the company otherwise provide, all of the directors in office retire each year, and the shareholders in general meeting elect directors for the ensuing year. Also, special meetings of the shareholders must be called to confirm certain by-laws before they are effective, and other bylaws lose their effect unless approved by the shareholders at the next annual meeting after the date of enactment. In some jurisdictions, special resolutions must be confirmed by the shareholders before taking effect.

There are three ways in which shareholders may exercise their rights:

1. At a regular meeting.
2. At a special meeting.
3. By written consent without a meeting.

The method to be used is usually prescribed by statute.

Special Meetings

If the nature of business is to confirm or approve a special resolution of the directors, or to deal with extraordinary business such as merger or amalgamation, the meeting is designated in the notice as "special" or "extraordinary". Any ordinary business may be brought before a "regular" meeting, particularly if set out in the notice, but if the meeting is of a special or extraordinary nature, no business other than that specified in the notice should be transacted. However, mostly for purposes of economy and expedience, it is customary to call the special meeting, for the same day as the regular annual general meeting of shareholders. The merit of such an arrangement is apparent, and proxies may appoint the same attorney to act in all matters of both meetings on the shareholders' behalf.

Notwithstanding that the governing regulations may permit consent of all the shareholders in writing in lieu of meeting, it is usually, although not always necessarily, the wiser course to call a formal meeting in order to avoid any suggestion that the shareholder was precluded from participation in the corporate affairs.

Preliminary Preparations

It is the right of the shareholders to meet once each year to receive the auditor's report, elect directors, appoint auditors and transact other business brought before the meeting. Preparations for the annual meeting necessarily begin some months in ad-

conscious of an urgency in the closing of the books, drawing of the financial statements, audit, annual report and approval by the directors, proxy solicitation and attention to a myriad of other details in the early months of the new year and well before the annual meeting.

Programming these many important preliminaries is requisite. In the fall of each year, tentative dates and deadlines are established and made known to all whose cooperation is needed in making the program effective. Discussions are held with the accountants and auditors and department heads from whom reports will be needed during the busy season to come. Early in the new year, the printer is informed of the probable paper requirements for the annual report, form of proxy, mailing and return envelopes. Changes in format of the annual report are considered.

At the earliest possible date following completion of the audit, a meeting of the directors is scheduled. The purpose of this meeting is not only to approve the financial statements, but to receive from the secretary and approve the draft annual report, notice of meeting, proxy soliciting material, if any, and, when applicable, to determine who shall be management's nominees for election as directors at the annual meeting. At the same meeting, consideration is given to management's recommendation concerning outside assistance, such as the services of the transfer or dividend-disbursing agent, in the matter of proxy solicitation and tabulation and recording of attendance at the annual meeting. If necessary, the date, time and place of the annual meeting will be set and, of course, the mailing of the annual report and notice of meeting to the shareholders will be authorized.

The capital stock of a number of Canadian corporations is listed for trading on one or more of the securities exchanges of the United States. In such cases, the secretary is responsible not only for conformity to Canadian law and the law of the jurisdiction under which the company is incorporated, but also to the requirements of the United States Securities and Exchange Act of 1934. The Act and the governing regulations, and the regulations of the stock exchanges on which the shares are listed, deal not only with the form and content of the financial statements submitted to shareholders, but place limitations on the solicitation of proxies and prescribe rules covering both the manner of solicitation and the extent to which it may go. Suffice to say, strict compliance is again essential.

Proof of the service of notice and insertion of newspaper notifications when required are established by affidavit of the secretary or the person to whom it has been entrusted.

Proxies

Proxies are numbered to facilitate handling, and the name and address of the shareholder is usually stencilled on the form before it is mailed. When the proxies are returned in the mail, they are sorted according to common and preferred stock, and each group is then ranged numerically by a clerk. Signatures are compared with the stencilled names which, incidentally, follow alphabetical sequence in accordance with the proxy number. When the signatures have been compared and those on which discrepancies appear have been set aside for later attention, the proxies are tabulated, and a daily cumulative total

reported to management. Proxies and annual reports are mailed to each new shareholder up to the time of the meeting or record date for voting, as the case may be. A common practice in the promotion of shareholder relations is the mailing of a printed acknowledgment and word of thanks to the shareholder for his proxy, evidencing his confidence in the management.

Physical Arrangements

As the day of the meeting approaches, the secretary and his assistants see to the hall arrangements, consisting of tables, chairs, lectern, blackboard, lighting and so on. Invitations are sent to the press and special guests including counsel and auditors. Arrangements are made to record attendance at the door. This entails checking the names of those in attendance against the list of shareholders and recording the number of shares represented in person. Ballot forms and draft scrutineers' reports are prepared in the event of a poll, and the agenda is given the most careful consideration. Speeches to be delivered at the meeting are often mimeographed in advance and made available to the press immediately following the meeting. When required, as in the case of Dominion companies, the secretary will obtain from each director, for the information of the shareholders at the annual meeting, a statement of his dealings in the shares or other securities of the company during the 12 months preceding the meeting. To expedite the business, the routine motions to be presented from the floor are made ready to be handed to the "movers" and "seconders" before the meeting, and the chairman is given a list of those who will make the motions.

On the day of the meeting the secretary's check list is reviewed, the minute books and by-laws are made available, the agenda is placed at the chairman's and secretary's tables, and a supply of annual reports is on hand for the shareholders in attendance. The inspectors or "tellers" take their places at the entrance door with the lists of shareholders and the final proxy record. The latter is adjusted as shareholders, whose proxies have been received, are transferred to the list of those whose shares are now represented in person. As a rule, the total share representation is read into the record soon after the meeting begins, particularly if necessary in establishing the presence of a quorum. In the case of small meetings especially, it is important that a list of the names of shareholders present be handed to the chairman immediately following commencement of the meeting. This assists him in responding to comments from the floor.

Agenda

The order of business at the shareholders' meeting, as set out in the agenda, is programmed as shown opposite.

It will be noted that there is ample opportunity for expression of the shareholders' wishes and for discussion during the meeting.

The newly elected directors usually meet immediately following the annual meeting of shareholders to appoint officers for the ensuing year. Notice is seldom required since the holding of the organization meeting is ordinarily set out in the by-laws as a regular annual function.

To complete his duties in connection with the shareholders' meeting, the secretary will inform the auditors by letter of their appointment, or

AGENDA

Annual General Meeting of Shareholders

Date . . . .

1. *Chairman*	Mr. Smith will preside.
2. *Secretary*	Mr. Jones will act as secretary.
3. *Notice*	Secretary will read and table notice of meeting and certificate of mailing.
4. *Quorum*	Chairman will read into the record the share representation, announce that a quorum is present, that the meeting is properly constituted and that it will proceed to business.
5. *Minutes*	Secretary will read the minutes of the previous annual general meeting of shareholders. Chairman will invite a motion of adoption.
6. *Annual report*	Treasurer will table the annual report, read the auditor's certificate and comment on the year's results.
7. *Chairman's address*	Chairman will address the meeting and at the conclusion: Move that the annual report be adopted. After the motion has been seconded — Chairman will announce that the meeting is open for discussion of the annual report. Discussion. Chairman will put the motion.
8. *Election of directors*[1]	Chairman will declare the meeting open for nomination of directors. Chairman will ask if there are any further nominations. Chairman will invite a motion to close nominations. Chairman will invite a motion authorizing and directing the secretary to cast a single ballot for the election of those nominated as directors. Chairman will instruct the secretary to cast the ballot. Chairman will declare those nominated elected as directors for the ensuing year.
9. *Appointment of auditors*	Chairman will invite a motion for appointment of auditors. (If necessary, the fee will be included in the motion.)
10. *Other business*[2]	Chairman will announce that the regular business is concluded and ask if there is any further business.
11. *Adjournment*	Chairman will invite a motion to adjourn.

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[1] If there are more nominations than board vacancies:
Chairman will invite a motion to close the nominations.
Chairman will announce that a ballot is required and, with the concurrence of the meeting, invite a motion to appoint scrutineers (if they have not been appointed earlier in the meeting).
Chairman will request that ballot forms be distributed and declare the poll open.
Chairman will ask the scrutineers to collect the ballots and prepare their report.
Chairman will suggest the meeting proceed, pending receipt of the scrutineers' report.

[2] If a scrutineers' report is awaited: (1) chairman will invite a motion to recess until a later time or date, or (2) chairman will request the scrutineers to present their report on the election of directors. Chairman will declare the election of new directors.

vance. The corporate secretary is re-appointment, and inform any absentee directors of their election to the board for the ensuing term. It is customary, too, to distribute to all shareholders a post-meeting summary of the proceedings. While this is designed primarily for those who were not able to attend, it is of some interest to all, particularly when the addresses delivered at the meeting are reproduced for reference and leisurely reading.

The corporate secretary is always aware that the creation of an atmosphere conducive to the harmonious and constructive exchange of views, thoughts and opinions is a fundamental necessity in properly preparing for corporate meetings.

The Regulation of Change

If the world is in a constant state of flux, what should management do about it? Should people pretend that nothing changes and seek to prevent change? Or should they, recognizing that change is unavoidable, seek to achieve continuous change, where nothing is allowed to remain static for more than a second? Managers of both persuasions are numerous and can sometimes spin a good yarn in favour of their peculiarities. But in most cases they will be simply magnifying their own personalities into respectable "policies" without regard to the reality they face. A few will in fact be concerned with activities that legitimately require a deathlike hush or a frenetic commotion – undertaking, for example, or some popular entertainers.

For the vast mass of managers, however, the only sound attitude is one that regards change as something necessary and valuable, that has to be studied, understood and planned as has every important element of their work. Sound management must aim at the deliberate cultivation of desirable changes, which can only be identified on the basis of an honest assessment of the condition and needs of their company. If your sales are going down, there is something wrong with your product, if only because of a change in taste, and you have to decide what to do to change the condition of decline. The right decision may involve exhaustive market and technical research that will produce a confusing, possibly conflicting, mass of information. But the information is likely to be more objective and reliable than the "experienced guess" that has guided the company masterfully to its present position of decline. The information will not usually produce an unarguable conclusion, and management is still needed to make the best possible decision.

– Stanley Hyman, "Management and Innovation", *The Secretary*, May, 1960.

Life Insurance in Estate Planning - I

HOWARD J. CROFTS, C.L.U.

In this article, it is the intention to discuss life insurance as a "tool" of the estate planning team and, in the main, to relate it to planning the estate of the individual who is active in and/or owns all or part of a business. Many of the problems encountered are common to all types of business interests, whether sole proprietorships, partnerships or corporations; others are peculiar to a particular kind of interest.

Three main problems that will determine the uses of life insurance in estate planning are:

1. The need for adequate liquidity.
2. Provision for continuity of management and adequate financing where the business is to be retained as an estate asset.
3. Ascertaining the best market where the business interest is to be sold.

Liquidity

The need for adequate liquidity is one of the most common problems encountered. Where are the necessary funds to be found within a short time of death to meet such obligations as estate taxes, succession duties, last expenses, legal, accounting and other costs incidental to death and, in some cases, provision for cash bequests made by will?

What solutions are there for the problem of liquidity where the major asset in the estate is a business interest?

(a) *By the sale of assets* – If the client owns marketable assets, these could be sold. However, liquidating them within a short period of time might be expensive. Further, unless these assets are substantial as related to the value of the business interest, their sale to provide liquidity would leave the business interest as the major estate asset. Thus, if the client dies, his family could be completely dependent on the successful future operation of the business.

(b) *By the sale of the business interest* – To depend on finding in a short period of time a buyer who will pay fair value for the interest, may not be realistic. If the interest is a minority one, the problem is obviously much greater; but even with a majority interest, a forced sale is not likely to produce fair value in the average situation.

(c) *By borrowing the necessary funds* – To depend on the ability of the executors to borrow or secure an extension of time for the payment of

taxes (dependent on the Minister's discretion) would certainly involve risk for the estate. In order to secure tax releases, the taxes would have to be secured or money borrowed from an outside source. At any given time, this might be impossible, or possible only at prohibitive cost. In this connection, it should be kept in mind that the interest on money borrowed to pay duties or estate taxes, as distinct from interest on such unpaid taxes, is not deductible from income. How can businessmen who may have problems borrowing money during their own lifetime expect that their executors will be able to do so? The loss of a key man owner who has provided successful management will most likely affect credit adversely.

On many occasions, life insurance, if available, can provide not only the best solution but the most economical one. A regular annual outlay would guarantee the necessary funds being available. The matter of the *ownership* of the life insurance to provide liquidity should be given careful consideration and will be dealt with in the second section of this article.

Readers will recall the statement of H. Heward Stikeman, Q.C. in his excellent article, "A Lawyer Looks at the Accountant in Estate Planning", published in *The Canadian Chartered Accountant,* June 1960. "As far as possible, matters should be arranged so that the client's funds are not used to pay what death duties may arise. Insurance companies have facilities to prevent this."

Business Interest to be Retained

Where it is desired that the business interest be retained as an asset of the estate, there are two major factors to be considered: (1) Will the corporation have adequate capital and credit available to operate successfully? (2) Is capable management available?

In regard to the first of these problems, after the liquidity needs of the estate have been met, will there be adequate funds available to continue the business? The death of the client will often use up all the liquid funds and also curtail normal bank credit. Further, suppliers may not be as willing to provide credit for new and untried management. Under these circumstances, life insurance could be the means of providing the necessary funds to solve these problems. Life insurance owned by the business could be used to retire or reduce obligations of the business. It could be used to retire redeemable preference stock, reduce bank loans, pay off notes or mortgages, etc., and thus improve the financial position of the company, making its future more secure.

Referring to the second problem (retaining or attracting capable management), if the business is to be continued successfully, capable management is an absolute necessity. If such management is not available today, part of the planning should be to provide for the securing and the training of such management. The retention and/or the attraction of capable management will be affected by a combination of factors. Adequate salaries and satisfactory working conditions are basic requirements. However, other "tools" can be very attractive to management. Some of these are:

(a) *Providing management with an interest in the business* — The acquisition of the interest might be dependent upon the death of the client. An arrangement could be entered into with a key person (or persons)

whereby he acquired such an interest in the event of the death of the client. This could be funded by life insurance owned by such employees on the principal's life with premiums paid through a bonusing arrangement.

(b) *Employee Benefit Plans* – These will help to retain and attract management. These benefits include group life insurance, weekly indemnity, comprehensive health and accident plans, and pension plans.

A few years ago the president of American Telephone and Telegraph Company made the following statement in regard to the value of pension plans as a method of executive compensation: "The company's pensions are on a level with the leaders, not in advance of other companies, but well in the van. On that, your directors principally rely in attracting and keeping talent."

Employee benefit plans are attractive from a company standpoint, and the government picks up a large percentage of the cost because the contributions are a deductible business expense.

(c) *Deferred Executive Compensation* – This is a relatively new development in the field of employee compensation. It is a selective method of recognizing the contribution made by key personnel and helps the business retain their services by providing an incentive and a reward to the executive who stays with the corporation. Under a deferred executive compensation plan, a contract is entered into between the corporation and the executive or key employee. The employee and/or his beneficiary is guaranteed certain benefits in the event of his death, disability or retirement. Any retirement benefits are supplemental to his normal pension benefits. In the event of death prior to normal retirement, the employee's beneficiary is guaranteed an income for a specified period. The benefits under the contract are dependent on the employee remaining with the company until death or retirement, and also fulfilling certain performance requirements. In this connection, a word of caution is necessary. Because of various tax consequences, a very carefully drawn contract is essential if this type of plan is being contemplated. The deferred executive compensation plan makes possible the prospect of substantial future benefits to the executive without attracting any immediate tax liability. The very substantial contingent liabilities under such a contract make it advisable to consider the underwriting of these risks through special plans of life insurance.

(d) *Split-dollar Plans* – This, again, is a method of providing special benefits for selected personnel. In a sense, the policy of insurance is split between the company and the executive. It can provide substantial insurance coverage for the employee at very low cost. The interest of the company is limited to the cash value of the policy and the remainder goes to the employee. The first premium is paid completely by the employee; thereafter the company pays the premiums to the extent of the increase in cash value, with the employee paying the small balance and, after a period of time, perhaps no premium at all.

There are some taxation aspects of split-dollar insurance that should be considered. First, it may be dangerous to use this type of arrangement where the employee is also a shareholder, as it might be construed that

a benefit was being conferred upon a shareholder by the use of this insurance technique. Sometimes a loan is made to the employee to help finance the first year's premium. If he is a shareholder, this might attract tax to the employee under section 8 of the Income Tax Act. Under section 3(1)(m) of the Estate Tax Act, all policy proceeds may be included in the estate of a deceased person if he had held any ownership interest in an insurance policy. This would appear to be true even though the full policy proceeds did flow to him. One method of handling this particular aspect might be to provide that the employee (where he was not a shareholder) own the policy. The portion of the premium equivalent to the cash value would be treated as a loan by the company to the employee. This loan would be a liability against the policy and could be deducted in determining the value for estate tax purposes.

(e) *Registered Retirement Savings Plans* — In 1957, legislation was introduced whereby contributions to a registered retirement savings plan can be deducted from income within the limits provided by section 79B of the Income Tax Act, for the purpose of computing income tax. Life insurance to the degree that it contains a saving element can be made to qualify under this legislation. It is therefore possible to use this as a method of providing a selective pension for certain individuals without going through the formalities of setting up and qualifying a registered pension plan. It should also be kept in mind that the registered retirement plan can often be used advantageously for sole proprietors and partners.

(f) *Special Coverages* — Over and above regular group plans, special benefits can be arranged for selected key personnel in the event of their death or disability. These could be funded by policies of life insurance on their lives. The proceeds of such policies could be paid as a death benefit to the widow of the deceased employee and would only be taxable to the extent that they exceeded the provisions of section 139(1)(j) of the Income Tax Act. The value of such payment would, however, attract estate tax. Such payments, so long as they were considered reasonable, would appear to be deductible by the company.

(g) *Key-Man Insurance* — Under this plan, life insurance is purchased by the company on the life of the key man and the proceeds are payable to the company. Key-man insurance is generally arranged for one of the following reasons:

1. To provide protection for the company itself against serious loss, for example, the loss of a sales manager who has personal access to certain markets; the loss of an executive who has been in charge of a successful development; or to offset the loss of the key man owner with the resulting possible effect on the earnings and the credit of the company. Receipt of $100,000 of insurance proceeds in the event of the death of a key man might represent the profit on gross sales of $2 to $3 million.
2. To provide cash for the company to redeem outstanding preference shares or retire notes.
3. To retire bank and other indebtedness and/or to protect the credit of the company.
4. To provide cash for the corporation, which may wish to make payments to the family of the de-

ceased key man, or to the estate of a deceased shareholder. For example, in the event of the death of a key man who was a majority or substantial shareholder, it could be of great advantage to his estate to receive cash, that could be available from the capitalization and the distribution of surplus as provided for in section 105(1) and (2) of the Income Tax Act.

The above methods whereby special benefits may be provided for selected key or executive personnel can be of real benefit in tying them to the company.

Any business life insurance owned or contemplated by a corporation on the life of a controlling shareholder should be assessed in the light of the new Estate Tax Act. Further reference will be made to this matter when ownership of life insurance is discussed in the second part of this article.

Very often the reason for desiring that a business be retained in the estate is to give the sons the opportunity of running the business and later owning it. If there are young sons, then obviously such a plan is going to be dependent upon capable management continuing the business successfully until the sons can take over. Under such circumstances, the conditions under which capable management can be retained must be very attractive. Some of the plans mentioned previously might provide part of the solution to this problem.

On the other hand, where the sons are presently engaged in the business, are they sufficiently experienced to operate the corporation so that it will earn the substantial profits required to maintain their own families, their mother and perhaps also brothers and, in particular, sisters? Will they be able to secure adequate bank financing and the credit necessary for the successful continuation of the business? It might be advisable for the father to enter into an agreement with the sons that, in the event of his death, they purchase all or part of the business. Such an arrangement could be funded with life insurance owned by the sons on the life of their father. On the death of the father, the life insurance would be used under the terms of the agreement to purchase shares owned by the father. This would provide cash to the estate for taxes, duties and other purposes. To the extent that the cash exceeded the amount required for estate liquidity, the widow and daughters would be less dependent on the success of the business for their future income. Such an arrangement may be an economical way of providing liquid funds, particularly if the present incomes of the sons are low as compared with that of their father. By increasing the sons' responsibilities, their incomes could be increased and with the increase they could pay the life insurance premiums.

Business Interest to be Sold

Because of the lack of competent management, or the very common conflict of interest between an estate and a surviving shareholder or partner, it is very often advisable to consider the sale of the business interest. For example, a surviving shareholder, if actively engaged in the business, would continue to receive his normal salary. His interest, therefore, would not necessarily be in receiving dividends. It might be in the best interest of the business to plough back profits. On the other hand, the estate of the deceased would no longer be receiv-

ing salary and might be in very real need of dividend payments.

If, in the event of death, the business is to be sold, the executors and trustees should have adequate funds to continue the business until such time as a satisfactory buyer can be found.

Very often a more satisfactory sale can be arranged with present employees or a surviving partner or shareholder. A buy-sell agreement could be entered into whereby the owner agreed to sell his interest and the survivors in turn agreed to purchase, on a predetermined basis. Life insurance is the best solution to funding this agreement because it guarantees the availability of the necessary funds. Such funding by life insurance could be in full or in part. This arrangement has the following advantages:

1. The agreement guarantees the market and fixes a price, with life insurance providing the money. This is to the advantage of the estate of the deceased. From a planning standpoint the value of the asset and the amount of cash that can be realized can all be determined beforehand. It should be kept in mind that the price provided by the agreement will not necessarily be accepted for estate tax purposes.
2. The agreement made between the parties best qualified to make it eliminates unpleasant subsequent negotiations with the widow or other beneficiaries.
3. The survivors will not be under pressure by the executors who are anxious to settle the estate. The survivors will own and control the business.

The drafting of an adequate buy-sell agreement should be a team effort. The lawyer draws the document; the accountant helps to arrive at price and any formula for adjusting price and, if necessary, the terms of payment; the life underwriter deals with the insurance aspects in terms of the agreement relating to life insurance. Where a corporate trustee is to act, the trust officer should also be a member of the team.

Partnership Interests — It should be kept in mind that in the absence of special arrangements, death legally dissolves a partnership and the surviving partner or partners become, in effect the liquidating trustees for the interest held by the deceased's estate. They cannot involve the business in further commitments, except at their own risk; they must render an accounting to the executors of the deceased's estate. If no special provisions are made for the continuation of the business, the situation will be most awkward for all concerned. A proper partnership agreement including a buy-sell arrangement would be most advisable.

Professional Partnerships — In such cases, buy-sell agreements pose some problems because there are likely to be changing interests among the different partners. This is particularly true where junior partners are being taken in and moved up in the partnership. In this type of situation where a buy-sell agreement is to be entered into, it might best be made only among the senior partners. A buy-sell agreement providing for the payment of a capital sum by surviving partners to the deceased's estate is simple, and there are no income tax problems. On the other hand, problems can arise where an agreement provides for taking a widow into the partnership and sharing in the profits.

This, however, would not be possible in most professional partnerships. Any arrangement that spreads the payments over a period of time runs certain risks; economic conditions could affect the ability of the surviving partners to continue the payments in the event of a further death. What liability is there between surviving partners? If all partners were to die, how could payments be made?

If the client has no family that is interested in continuing the business, he may desire to make the business available to a group of employees. An arrangement could be made whereby the business interest is to be sold to a group of key employees.

Such an arrangement can assure the owner of the business a market at a fair price and also guarantees continuation of employment and recognition to those who helped to build the business. Very often the owner is prepared to bonus employees through salary adjustments, so that they can pay for life insurance to fund the buy-sell agreement. This recognizes the contribution made by the key employees to the development of the business, and further, the difference in price between such an arranged sale and a sale on the open market at the owner's death may be advantageous to his estate. Should the owner decide to retire and then sell to employees, the cash or loan values of the life insurance could provide a down payment for the purchase at that time. Provisions for sale at retirement may or may not be a part of the original agreement.

Criss-Cross Plan

In regard to underwriting the life insurance, the most satisfactory arrangement is that the life insurance be purchased on a criss-cross basis. Under this plan, each party applies for and pays all the premiums on the life of the other party (partners or shareholders). The policy is made payable to the applicant, and the applicant owns the policy. The corporation or partnership may issue cheques for the premiums, provided the full amount of the premium on "A's" life is charged to "B's" personal account, and vice versa. In some cases the agreement provides for the use of a trustee. Under this arrangement the business interests are assigned to the trustee, and the policies made payable to him. On the death of one of the parties, the trustee would turn over the deceased's business interest to the survivors and pay over the insurance proceeds to the estate of the deceased. This arrangement avoids any possibility that the agreement will not be carried out. One of the greatest advantages of a criss-cross purchase of insurance is its freedom from tax complications. Under this plan, when a party to the agreement dies, the proceeds belong to the survivors providing they alone have paid the premiums and, therefore, it does not form part of the deceased's estate. This avoids all possibility of estate tax and succession duty complications.

Difference in ages between parties can cause a wide variation in the amount of premiums payable. This, however, is equitable because the chances of the older party dying are greater. In some situations the younger party cannot afford the higher premium. This may require reducing the amount of coverage, with provision for the purchase of the older party's interest on more liberal terms, or the older party might lend or give money to cover the difference

in premium, accepting notes to cover any loan which would be payable to his estate. In the event of the older party's death, the younger would own the business and, as the notes became due, their payment could be arranged out of earnings.

Some of the many applications of life insurance in solving the problems of liquidity, retaining and securing competent management, and creating a market for a business interest, have been indicated. In part II of this article, problems arising in connection with buy-sell agreements will be discussed and different methods of ownership of life insurance will be outlined.

The Wart Hog Affair

On May 5, the Minister of Agriculture, Fisheries and Food was asked in the [British] House of Commons how much it had cost to prepare and present the Order, dated April 7, authorizing the landing of two more wart hogs, and why further importation of wart hogs had taken place. The Minister replied that the total cost of preparing, duplicating and publishing the Order and presenting it to Parliament had been estimated at £14 (thus no doubt bringing unholy joy to the heart of Professor Parkinson in his campaign to cut down waste in the government and in particular in H.M. Stationery Office). The questioner's point was that the same machinery had already been used for the importation of an earlier wart hog, and he thought the repeated outlay rather costly for pets. The Minister, sensing deep water, queried the use of the term "pets" and said that he was considering making standing orders to cover similar importations. He was not to escape so easily, however, as a second member kindly pointed out to him that if the two wart hogs under discussion had been of opposite gender there would have been no necessity for this. A third member thereupon intervened to ask his right hon. Friend to take steps to see that people did not mock these animals. "They feel it very deeply", he said. The Minister had had enough and firmly ended the exchange by replying: "My hon. Friend has a very great knowledge of these matters, and we all appreciate the great efforts he makes to ensure that the sensitivity of these animals is kept properly in mind".

Honours about even, we venture to think. But it would be interesting to know more about the basis on which the figure of £14 was arrived at. Was it marginal costing? Was anything allowed for overhead? Was the cost of making the calculation included? And so on.

— *The Accountants' Magazine*, June, 1960.

How the PUBLIC ACCOUNTS Committee Functions

Public Accounts is one of the important committees of the House of Commons. This committee sits under the chairmanship of Alan Macnaughton, Q.C., M.P., Liberal Member of Parliament for Montreal-Mt. Royal. Mr. Macnaughton has been chairman since the committee was first organized by the present government during the 1958-59 session.

The federal government is the largest single enterprise in the nation. It is Canada's largest employer. It collects the largest amount of money from the Canadian people for its services. It is the nation's largest spender. The Canadian people have the right to expect that the services they demand of the government are provided at a fair and reasonable cost. They have the right to inquire through parliament into the spending of their money and to learn if it has been spent wisely and honestly.

We are apt to lose sight of the size of the federal budget. Too often we fail to realize the pace with which government expenditures increase, and in the past decade the pace has been rather breathless.

In 1949 the expenditures of the federal government — and I am using current dollars — amounted to $2,174 million. The surplus in that year was $480 million. In 1959 the expenditures amounted to $6,359 million and the deficit was $399 million. In other words, in the short space of ten years, expenditures increased three-fold.

In the 10-year period, 1949-59, the gross national product increased by 52%, and the population of Canada rose by 30%.

I cite these figures merely to show the dimensions of the problem and to emphasize the need for careful scrutiny of the spending of the taxpayers' money.

There are many reasons for this increase:

The rising cost of goods and services.

The costly hardware which a country must have to defend itself in these days of missiles and the threat of nuclear warfare.

The increasing number of social services.

The demands made by the public on governments.

The public, by choice, has come to rely upon governments, in particular the federal government, for services which formerly were either unattainable or only available to individuals of means.

No matter what the reasons are for the increase in the expenditures of governments, the fact is that governments today have at their disposal huge sums of money to spend. These are public funds.

If an individual invests his money, he is assured of an accounting by management. The safeguards are either prescribed by law or voluntarily initiated by business. Surely the public is entitled to the same safeguards and scrutiny of the spending of their money by governments.

Watching the Public Purse

The aim of the Standing Committee on Public Accounts is to ensure parliamentary control over public funds. It asks: Was the public money spent as directed? Was due economy used? Was a high standard of public morality maintained in all financial transactions? If not, why not? The committee is empowered to call for persons and papers and to make a thorough examination.

Aside from a few exceptions, the Public Accounts Committee as set up in Canada many years ago, dominated as it was by a majority from the government in power, saw to it that mistakes were often smothered by the "will of the majority". Opposition members on the same committee did their best to ferret out the misdeeds, waste and extravagance and to publicize it. Over the years, the committee earned the nickname of "the scandal committee".

I do not think it is going too far to say that governments in power were never too enthusiastic about calling the committee into being, and when they did so, considered it as a necessary evil.

The present committee was established by parliament in 1958. The Prime Minister, Mr. Diefenbaker, said in the House at the time:

"What about the committee on public accounts? I have been here since 1940 and whenever that committee was convened it was impossible to bring up any matter excepting those matters desired by the majority. I am now asking that this committee be made effective, and I doubt whether it would have been thought that action of this kind would be taken so early in this first session of parliament. I want to see that an effective committee is formed, not just a body set up for decorative purposes. We intend insofar as that committee is concerned to propose that a member of Her Majesty's loyal opposition be chairman of that committee in order to ensure its effectiveness."

Prior to his government taking office, the Prime Minister had repeated time and again that he intended to establish a standing committee on public accounts modelled after that of the British House of Commons.

Format of Committee

The present committee consists of 50 members of the House of whom 38 are from the government side and 12 from the opposition (10 Liberals and 2 CCF). The work of the committee is directed by the chairman and a small steering committee assisted by the auditor general and his staff.

The committee is instructed by the House to review the auditor general's report and to inquire into, and examine, the accounts of all government departments and agencies and those of the Crown companies.

The work of the committee depends in a large measure upon the advice and assistance of the auditor general who enjoys a rare independence in terms of a public servant. He is responsible to parliament and not to the government. He cannot be removed from office except by joint action of the Commons and the Senate.

In my study of the British counterpart of my committee, in talks with its chairman and with the British comptroller and auditor-general, I came to the conclusion that there are procedures which should be adopted by our committee.

My first suggestion is that the size of the committee be reduced. The present membership is 50, and I think a membership of 20 to 25 would be adequate. Large committees, whether they are in parliament, business or elsewhere, are never really effective. I believe, too, that the members of the committee should be selected on a basis of their background so that the committee would have representatives of business and the professions.

I suggest also that the committee should meet in camera. This suggestion has been made before and aroused considerable controversy in the newspapers across the country. This method is followed in England where it has proved highly successful in bringing about a non-political attitude and complete objectivity of the members, regardless of party.

It also has the advantage of providing the right atmosphere where civil servants and witnesses may answer freely even the most embarrassing questions. The net result is that the committee often proves of great assistance in the discovery of errors and omissions which could not have been foreseen and in the making of suggestions for improvement which the Deputy Ministers, the operating heads of departments, appreciate.

I am well aware that the American system of open committee meetings with television and radio make for excitement and more interesting headlines, but that is not the purpose of this committee.

It follows that if the meetings were held in camera, periodical reports should be issued and also that all the evidence should be published with only those questions and answers deleted which the public interest required.

In England this procedure is followed, and the deletions from the evidence over the past few years have amounted to ½%. In order to ensure complete integrity, the full evidence would be available for examination by any member of parliament.

Scrutinizing Crown Corporations

I believe that Crown corporations should come in for closer financial scrutiny by parliament. The federal government has upwards of $4½ billion of the taxpayers' money invested in Crown corporations and agencies, but only a handful of this large group of organizations comes under scrutiny by parliament.

This year we are in the process of examining two of the 22 Crown corporations referred to us. I hope that in this way we will have established a precedent which will mean that in future years Crown corporations and agencies will be subject to the scrutiny of their affairs at least as close as that given to departmental estimates.

Because of access to low-interest or

The address on which this article is based was delivered by Mr. Macnaughton at the University of Montreal on June 21 at the annual conference of the Institute of Chartered Accountants of Quebec. With the Public Accounts Committee chairman (right) in this photograph are J. Emile Maheu, outgoing president of the Quebec Institute, and M. L. Watt, president-elect.

free capital provided by the Canadian taxpayers, Crown corporations at first sight appear to compete unfairly with non-governmental business and industrial enterprises that serve the public. However, in dealing with those Crown corporations which do compete in public, it is my opinion that their dealings should be examined in camera because it is manifestly unfair to disclose their trading secrets to their competitors.

The pyramiding of spending at all levels of government requires the closest scrutiny. Federal government, for instance, advances money to the provinces for the construction of hospitals and the Trans-Canada Highway. In terms of the taxpayer, the sharing of costs between governments raises a far more complex problem than the mere checking on the expenditure of public funds.

Blurred Boundaries

It is a fact that the federal government is spending for purposes that are provincial and that the provinces are absorbing costs that are municipal. Sometimes this takes the form of a carrot dangled over the fence—the superior authority offering to share in the cost of a service which is the responsibility of another. This unquestionably results in the provision of useful services which might otherwise be deferred. On the other hand, spending may be on a scale that local circumstances do not necessitate. In short, my plea is that we should never forget that it is the same taxpayers who are financing all levels of government and that they should enjoy reasonable protection.

In a democracy public opinion must ever be on the alert, and it can never be overlooked that the size of administrative organizations and the influence of those who head them are regulated by the spending outgo. Economy comes through pin-pointing responsibility, and it is a truism in public administration that a rationalization of public costs is never achieved by cutting off a few employees—services have either to be abandoned or made self-supporting.

Some spending boundaries are so blurred that the taxpayer does not and cannot know whether he is getting a fair run for his money. It is therefore of interest that the federal government is considering the setting up of a commission to investigate costs of departments. It will have a major task, but let us hope that it is also instructed to consider the need for an up-to-date classification of public-spending responsibilities and the checks which should automatically regulate where a department plans to spend in a field of another public authority.

It is not so many years since Chief Justice Stone of the United States Supreme Court declared that the only benefit to which a taxpayer is constitutionally entitled is that derived from his enjoyment of the privilege of living in a civilized society "established and safeguarded by the devotion of taxes to a public purpose".

If that privilege of living in a society of our choice is not to become too costly, then we must look twice as hard at public spending as we do at private spending. Public spending lacks the initiative which the profit motive gives to business. If a business is being run inefficiently and unprofitably, we will work day and night to set it right, but when we come to deal with a big government department, our only tendency is to look at the estimates.

Government spending has under-

gone three fundamental changes since the end of the war:

1. A large part of government spending goes on highly technical projects. These are difficult to estimate and usually cost more than budgeted for.
2. There is a much greater volume of government spending than heretofore and consequently opportunities for greater waste, whether due to political decision, indecision or failure to stand up to the pressures.

   For example, examination of the estimates is crammed into a short time; members tend to concentrate on the increases asked for rather than demand economies in the static expenses. We examine the proposals for the immediate present while not always considering the consequences for the future.
3. At one time a request for supplementary estimates, short of an emergency, was considered a black mark against the department and a failure to properly estimate the needs. Today this attitude is changing and the granting of supplementary estimates tends to become more and more routine.

This all weakens Treasury control of the expenditures of public monies. New methods are needed to tighten control, and one step in this direction is a hard-working Public Accounts Committee determined to see that its reports and recommendations are implemented.

A New Examination Hazard

From time to time complaints are received from [U.K.] examination candidates about conditions in the examination room. How fortunate such candidates should consider themselves that they need only complain about matters of temperature or noise from adjacent buildings! How they should congratulate themselves on not being subjected to the hazards that confront examinees in some of the overseas centres! If, at future examinations, they are tempted to complain of some minor distraction, it may perhaps calm them to reflect upon the conditions revealed in the following extract from a letter addressed to the [Chartered] Institute [of Secretaries] from one of the examination centres in Nigeria:

"What might have developed into a serious situation occurred during the examination on Friday afternoon. A candidate, gazing through the only door of the examination room, saw an unusually large black (and, of course, most dangerous) snake wriggling in. The invigilator was warned: he proceeded to rouse the messenger from his siesta, and between them they foiled this attempted take-over bid, which, had it been successful, would have been bitterly resented, but undisputed, as all the candidates would have withdrawn, in great disorder, through the windows."

—*The Secretary*, July 1960

Edited by W. BARRY COUTTS, C.A.

Accounting Research

Qualifications in the Auditor's Report

R. D. Thomas, C.A.
C.I.C.A. Research Director

The Committee on Accounting and Auditing Research began work on a bulletin on "Qualifications in the Auditor's Report" after the release of Bulletin No. 17 which dealt with the recommended form of report when the auditor made no qualification or exception in expressing his opinion on financial statements. Bulletin No. 18, now published, deals with the circumstances necessitating a qualification and makes recommendations as to how a qualification in the auditor's opinion should be reported.

A study of published annual reports of Canadian companies over a 5-year period disclosed a number of ambiguous auditors' reports and of variations in interpreting the circumstances normally calling for a qualification of opinion. As a result of this study and the experience of individual members of the Research Committee, there appeared to be a need to establish some bench marks for the guidance of our members and the public alike.

Most of the ambiguities were the result of expansions and comments which the committee felt were confusing because the auditor gave no indication of why such additional disclosures were considered necessary. Some of the ambiguities might well have been intentionally made, without specifically qualifying the expression of opinion, in an attempt to avoid responsibility in the event of future litigation over the matters mentioned. In order to avoid any uncertainty as to the significance of expansions and comments in the usual audit report, Bulletin No. 18 recommends that, if the auditor does not intend a qualification of his opinion, the additional information and explanations should be given in a separate report. If a separate report is not used, the bulletin recommends that the additional information be given *after* the opinion paragraph. Of course, where the additional information is merely the wording necessary for strict compliance with a governing statute (for example, literal compliance with the Companies Act (Canada) requires the auditor to state ". . . I have obtained all the information and explanations I have required.") then, to use the words of the bulletin, ". . . such statutory requirements can be met by a simple modification or expansion of the recommended form of report". It is to be hoped that the recommendations of our Committee on the Companies Act will soon be implemented so that such obsolete phrases now required by many Companies Acts will no longer clutter up auditors' reports.

The reports analyzed also disclosed obvious differences of opinion as to whether or not a qualification was

necessary where matters, which normally would be expected to require a qualification of the auditor's opinion, had been clearly explained in the financial statements or notes appended to them. The bulletin points out that this type of disclosure does not relieve the auditor of his responsibility to qualify his opinion; however, it does point out that it is not necessary for the auditor to repeat the information in his report as long as he specifically refers to it as the reason for the qualification.

Another area in which there appeared to be variations in practice related to the disclosure of the effect which specific accounting deficiencies had in the financial statements. Bulletin No. 18 covers this problem and recommends that, wherever possible, the effect of the deficiencies should be provided.

In dealing with proper presentation of a qualified opinion, Bulletin No. 18 recommends that, when the auditor intends to present a qualified opinion, the opinion paragraph should be modified by wording which clearly conveys his intention. In addition, the bulletin recommends that, where the qualification is due to an auditing deficiency, the details of the deficiency should normally be set out in the scope paragraph; where an accounting principle is involved, the details should be set out in a separate paragraph between the scope and opinion paragraphs.

In recommending practices to be followed in giving a qualified opinion, the bulletin recognizes that there may be circumstances where the auditor is unable to express even a qualified opinion as to whether or not the statements present fairly the financial position and the results of operations. However, as the bulletin points out, ". . . it is often desirable that he include in his report information to describe what he has been able to accomplish in his audit and to what extent the statements may, in his opinion, be relied upon". Thus, the bulletin emphasizes the important difference between an audit report denying an opinion and the formal disclaimer of opinion (see Bulletin No. 13) which usually accompanies financial statements prepared without an audit.

It should be noted that this bulletin does not deal with another common cause of confusion for readers of audit reports, namely, reference therein to reliance on the work of other auditors when the auditor reports on consolidated statements. This subject is being studied by a special Research Sub-Committee.

Bulletin No. 18

August, 1960

QUALIFICATIONS IN THE AUDITOR'S REPORT

1. In Bulletin No. 17, the Committee on Accounting and Auditing Research recommended a standard form of auditor's report for use when the auditor is able to express an opinion on financial statements without qualification or exception. Occasionally the auditor is unable to express such an opinion, and the committee now wishes to suggest modifications of the standard report to meet this situation.

2. Uniformity in the wording of qualifications is not possible because of the wide variety of situations encountered. The committee believes,

however, that recognition of the basic purposes of qualifications in audit reports will contribute to clarity of expression by the auditor and hence to a better understanding by the reader of the significance of the qualifications.

3. The circumstances which prevent the auditor from giving an opinion without qualification or exception usually involve:

(i) Auditing deficiencies, including:
- (a) Failure to obtain essential information, and
- (b) Limitations in the scope of the examination.

(ii) Accounting deficiencies, including:
- (a) Failure to disclose essential information.
- (b) Failure to adhere to generally accepted accounting principles, and
- (c) Inconsistencies in the application of generally accepted accounting principles.

(iii) Disagreement on valuation.

Recommendations for Qualified Reports

4. The committee sets out below what it considers to be desirable procedures in the various circumstances which normally require an exception to the auditor's opinion.

(i) *Auditing deficiencies*

(a) FAILURE TO OBTAIN ESSENTIAL INFORMATION

5. If the auditor has been unable to obtain information which he deems essential to enable him to express an opinion without qualification, he should clearly set out the nature of the information he has been unable to obtain and qualify his opinion accordingly.

(b) LIMITATIONS IN THE SCOPE OF THE EXAMINATION

6. If the auditor, either because of restrictions imposed upon him by his client or because of other circumstances, has not carried out some audit procedure that he considers necessary, this fact should be stated in the audit report and the opinion qualified in respect to the procedure omitted.

7. In some instances, auditors have disclosed limitations in their examinations and at the same time have expressed an opinion on the accounts without qualification. The committee considers this practice undesirable. If the omitted procedures are of sufficient significance to warrant a reference in the auditor's report, then the auditor is not in a position to state that he has made such examination as he considered necessary and, accordingly, his opinion should be qualified.

(ii) *Accounting deficiencies*

(a) FAILURE TO DISCLOSE ESSENTIAL INFORMATION

8. If the auditor considers that the statements do not provide all the information essential to a fair presentation of the financial position and operating results, he should disclose in his report such additional information as he considers necessary in the circumstances. His expression of opinion should be qualified as dependent on this additional information.

9. Occasionally the auditor is unable to form an opinion on the fairness or adequacy of an item in the financial statements because of uncertainties which cannot be re-

solved at the date of his report. Under such circumstances, where the item is significant, the uncertainty restricting the auditor's opinion should be disclosed and his opinion expressed as being dependent on the outcome of the matter in question.

(b) FAILURE TO ADHERE TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

10. Where the auditor believes that the accounting treatment or presentation of some material item does not conform with generally accepted accounting principles appropriate in the circumstances, he should state in his report the basis of the lack of conformity and, if possible, give an indication of the effect which the use of the proper procedure would have had on the statements. His opinion should be qualified because of the failure to conform with generally accepted accounting principles.

11. Where an auditor should qualify his opinion because of a lack of conformity with generally accepted accounting principles, he is not relieved from doing so by the disclosure in the statements, or the notes appended to them, of the lack of conformity. However, it is not necessary for him to repeat the information in his report so long as his report refers specifically to the information disclosed in the statements or notes and his opinion is properly qualified.

(c) INCONSISTENCIES IN THE APPLICATION OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

12. When there is a significant change in accounting treatment, the auditor should explain clearly the nature of the change and indicate its effect on the current financial statements, unless the change and its effect has been explained in the statements or in notes appended to them. In any case, his expression of opinion should refer to the inconsistency.

(iii) *Disagreement on valuation*

13. If the auditor disagrees with the valuation of an item in the financial statements, he should qualify his opinion. His report should disclose the nature of the disagreement and the effect on the financial statements of using the valuation the auditor considers to be proper.

Proper Presentation of a Qualified Opinion

14. As indicated in the preceding paragraphs, proper presentation of a qualified opinion requires a clear explanation of the circumstances which prevent the auditor from expressing an opinion without qualification. The method of disclosure varies with the conditions encountered. Where audit procedures are involved, the usual practice is to set out the details in the scope paragraph of the report. Where accounting principles are involved, the details usually are set out in a separate paragraph between the scope and the opinion paragraphs, or, if they can be explained briefly, are included in the opinion paragraph.

15. Proper presentation of a qualified opinion also requires that the opinion paragraph be modified by wording which clearly conveys the auditor's intention to qualify his opinion. The committee emphasizes that, while the modifying words may vary, the words used should not only refer to the qualifying circumstances but should also specifically identify such circumstances as qualifications. It is therefore recommended that wording such as "with the exception

that", "except for", "with the exception set out in the preceding paragraph", "subject to the qualification that", or "subject to the qualification set out in the preceding paragraph", should be used in the opinion paragraph.

Cases in Which No Opinion Should be Given

16. In recommending procedures to be followed in giving a qualified opinion, the committee wishes to emphasize that, when an auditor encounters deficiencies or disagreements of the types set out in paragraph (3) of this bulletin, he must first decide whether he can express even a qualified opinion.

17. In some cases, the auditing deficiencies may be so material that the auditor has no basis for an opinion as to whether or not the financial statements present the situation fairly; or accounting deficiencies may be so significant that the auditor cannot express his qualification so as to show clearly how, and to what extent, the statements are misleading. In such circumstances the auditor should report, giving his reasons, that he is unable to express an opinion as to whether or not the statements present fairly the financial position and the results of operations. However, it is often desirable that he include in his report information to describe what he has been able to accomplish in his audit and to what extent the statements may, in his opinion, be relied upon.

18. An audit report containing a definite denial of an opinion should not be confused with the formal disclaimer of opinion usually accompanying financial statements prepared without audit. (See Bulletin No. 13). In the former case it is the deficiencies encountered during the engagement which prevent an expression of opinion while in the latter it is the terms of the engagement which preclude an expression of opinion.

Additional Information and Explanations

19. Governing statutes under which the audit is performed sometimes require certain information to be provided by the auditor in addition to that included in the standard form of auditor's report. In some cases, such statutory requirements can be met by a simple modification or expansion of the recommended form of report. However, where the information is fairly lengthy, it should be set out in a separate paragraph after the opinion paragraph, with a reference, if appropriate, to the particular governing statute which makes it necessary to provide the additional information.

20. Auditors sometimes include in their report additional information and explanations which could be interpreted as indicating a qualification, although none is intended. The committee is of the opinion that it is preferable for such matters to be dealt with in a separate report but, if the auditor wishes to expand his formal report in this way, his opinion should first be given, together with any remarks intended as a qualification of such opinion, before the additional information and explanations are provided.

COMMITTEE ON ACCOUNTING AND AUDITING RESEARCH 1959-60

H. I. Ross (Chairman), Paul Bruneau, Marcel Caron, E. A. Christenson, J. R. Church, G. R. Ferguson, F. A. Griffiths, T. A. M. Hutchison, H. R. Macdonald, L. G. Macpherson, I. E. Millie, H. D. Rendall, R. M. Skinner, E. N. H. Wright.

Edited by GEOFFREY H. WARD, C.A.

Practitioners Forum

This month's column is a condensation of an address given by Gordon Kennedy, former public relations officer of the Canadian Institute of Chartered Accountants, to the 1960 annual conference of the Institute of Chartered Accountants of Ontario.

PUBLIC RELATIONS AND THE ACCOUNTING PROFESSION

Public relations is becoming an increasingly important tool of adjustment, interpretation and integration between individuals, groups and society. Understanding and support by the public are basic to existence in our competitive system. Knowing how to get along with the public is, or should be, important for everyone.

To citizens in general, public relations is important for many reasons. It helps them to understand the society of which they are a part, to know and evaluate the viewpoints of others, to lead in modifying conditions that affect them, to evaluate efforts made by others and to influence courses of action.

To the business or professional man, public relations is particularly vital because he deals with many publics: purveyors, workers, students, customers, clients, government, community, retailers, wholesalers, stockholders and bankers.

What is Public Relations?

Unfortunately the term "public relations" is loosely used and in the minds of many people has negative connotations. Frequently it is looked upon simply as an adroit means of making people like you and of possibly leading them to think you are better than you really are.

What is meant by public relations? Basically, public relations is revealing yourself to your best advantage in terms of your talents and interests, in accordance with high ethical standards and good taste. But there is one vital prerequisite: that you must first have something worthwhile to reveal in character, ability and skill. Neither an individual nor a firm, nor for that matter a professional Institute, can have a good reputation without deserving it.

Certainly, columns and columns of newspaper coverage and dozens of television and radio interviews will not alone build good public relations. They help, because publicity is a very vital tool, although only one of many, in the achievement of good public relations. However, even the most complimentary coverage of the Institute's professional activities and standards is useless if the actions of the individual members and firms do not bear out this praise.

It is easy to confuse publicity and public relations. Press clippings are not the only yardstick, nor are they a cure-all for a lack of understanding by the public. Publicity is what you say about what you are doing, where-

as public relations is what other people say about what you are doing.

Several years ago Professor Virgil L. Rankin, of Boston University, said, "Good public relations are so simple, so easily acquired, so inexpensive and so downright sensible that they should be a well-defined part of every professional man's program. There is nothing mysterious or complicated about them. There are no mystical forces to manipulate or understand. The professional man is practising public relations, good or bad, in every act of his waking life. He can no more escape the consequences of his actions than he can stem the tide. Everything he does, everything he says, contributes to the mosaic that is somebody's opinion of him. If his actions and utterances are such as to command respect and liking, then it may be said his public relations are good. If his deeds and words, on the other hand, are such as to make people lose respect for him, dislike and misunderstand him, then his public relations are bad. It is just as simple as that. The public relations of your profession are the sum total of the public relations of the individuals who make up the profession."

Now, to recommend some basic things which you can do individually to better the profession's public relations. Many of these suggestions are not aimed at most of you. But some of them can be put to use by each of you.

Bankers

More time and thought could be given to improving the relationship between auditors and bankers. To bring about greater mutual understanding, use the opportunities presented by club, church, and civic activities to get together with the banker away from the usual working situation. Have lunch with bank managers and their credit men to discuss mutual interests. Chartered accountants should get permission from their clients to discuss their affairs with the clients' bankers. Some firms make a point of telephoning the banker to offer assistance when a client's statement is to be used for credit purposes, should any further data be desired.

This is good public relations. Offering a service, not because of what is in it for you, but because you can be of some assistance, will bring greater respect for you and the profession. This is one of the main paths to achieving your public relations potential. Occasional visits by the chartered accountant to the local banker to discuss how well his reports have met the bank's needs and to explore other common problems are favoured by many bankers.

Some chartered accountants take the initiative and bring their clients and bankers together. Meetings with selected clients and their bankers can be held during the slack season to discuss the client's specific problems and plans. By familiarizing himself with bank requirements as well as general business conditions, the chartered accountant is better able to present the business viewpoint to banker and client.

Some bankers feel quite strongly that chartered accountants are not aggressive enough in selling needed services to their clients. Active participation in local, provincial and national organizations will impress the banker with your willingness to keep up to date and broaden your professional qualifications.

Many banks have periodic meetings of their credit men, and some

chartered accountants have had the opportunity to attend or participate in them. More group meetings of chartered accountants and bankers appear to be in order. However, as there is a limit to the value of group-exchanged ideas, these meetings should be supplemented by exchanges between individuals. You would be wise to make a greater effort to cultivate the bankers' knowledge of the profession.

The Canadian Institute of Chartered Accountants is preparing a brochure which will explain in detail what is involved in an audit and the significance of the auditor's signature and qualifications. Copies of this brochure, prepared in cooperation with the Canadian Bankers' Association, will be distributed to every bank manager in the country as an indication of the accounting profession's sincere desire to work with the bankers toward a greater understanding of each other's problems. Preparing booklets is something the Institute can handle better than its individual members. But the achievement of the underlying objectives will depend largely on your attitudes and conduct in your day-to-day dealings with bankers.

Clients

Most clients know too little about their auditors and the range of services that they are competent to perform. They do not realize that their C.A.'s can contribute to business profits, other than in terms of obvious tax savings. Few small businessmen are doing methodical planning for the future in budgetary, tax or financing areas.

There is a real job to be done in educating clients to think in terms of what help the C.A. can offer in such matters as evaluating the adequacy of insurance, fidelity coverage, analyzing and controlling costs, analyzing receivables, advising on credit policies, budgeting cash requirements, controlling inventories and forecasting working capital needs.

Rarely does the C.A. volunteer his services; management is usually obliged to ask for aid. In some ways, this might be regarded as a happy situation. But surely laymen have a right to expect professional men to promote recognition of the full usefulness of their art before the need becomes apparent to everyone.

Each of you might well ask these questions:

1. Do all our clients have an adequate knowledge of our firm?
2. How does our length of service with our clients compare with that of other firms?
3. How much time is devoted to community services by members of our firm?
4. Does our firm take the initiative in tax planning?
5. Are we performing services which might be more economically rendered by others?
6. Have we done enough to alert clients to the full usefulness of our services in guiding management decisions?

Public Service

There is a growing social and political awareness on the part of business which has led to increasing participation in public service of all kinds. What holds true for the businessman should hold doubly true for the chartered accountant, for accounting is the profession of business, and among the identifying marks of any profession are acceptance of social re-

sponsibility and unselfish devotion to the public interest. Chartered accountants should carry their participation to the point of becoming candidates for public office. Municipal and provincial governments are struggling with what sometimes appear to be insoluble monetary problems. Who better than the C.A., with his special financial training, can help to see that the money is well spent?

Although the C.A. can best begin his public service in financial areas, he should not limit himself to this, but should extend his service to broader administrative posts. One only has to consider the number of important public positions held by lawyers and doctors to realize that chartered accountants are not taking advantage of the opportunity to show that their profession has also come of age.

Institute Activities

Are you making full use of the public relations tools supplied by the Provincial and Canadian Institutes? Is *The Canadian Chartered Accountant*, among the reading matter in your reception area? This journal takes in a wide range of business matters and should be of interest to all clients. Here is another opportunity to show businessmen that the profession's interests and responsibilities go far beyond auditing and accounting.

You could also display other C.I.C.A. general business publications such as "The Function of Management" and "Financial Reporting in Canada". Most clients would appreciate receiving any issue of the magazine which contained an article of special interest to their line of business.

Much more public-speaking should be done by members, not just in the field of politics but to service clubs, parent-teacher associations, trade conventions, universities and high schools. Passing on career information to high school students should not be regarded solely as recruiting but as public relations activity as well. It is beneficial to your profession that all students obtain a better understanding of chartered accountancy.

The new C.I.C.A. film "The C.A. in Canada" has been well received. However, members should more actively promote its use in the high schools. Unfortunately it is not possible to produce a film suitable both as a public relations tool at businessmen's gatherings and as a vocational guidance aid in high schools. Nevertheless, there are opportunities where the film can be put to greater use. These include parent-teacher organizations and branches of the Y.M.C.A., Rotary and Kiwanis, which include career counselling in their activities. You could distribute copies of the Institute career booklet to interested parties. The list of little things you can do to support the more formal efforts of your Institute is endless.

Publicity

Here are a few "don'ts" for those of you responsible for publicizing C.A. Club or Institute activities. They apply to newspapers, radio and television.

1. Don't try to disguise advertising as news. Nothing will get you in trouble with the editor faster than giving him a story that belongs in the advertising columns.

2. Don't colour the facts. Superlatives, exaggerated claims, self-promotion, opinion or personal comment do not belong in a news

story, unless the opinion or comment is news in itself.

3. Don't beg or plead with the editor to get your story printed. If it is news, it will be carried.
4. Don't argue with the editor or go over his head to his boss because you have met him socially.
5. Don't send material to the wrong man. Address material to editor by name. Better yet, hand it to him if it is important enough.
6. Don't rush in with a routine story five minutes before the deadline. Routine material should be on the editor's desk 24 hours before publication or story release date. Obtain copies of speakers' addresses in advance and distribute them to the various media.

The best way to gauge what should be given to editors is to ask yourself whether the story is of interest to people outside the profession.

When your group is doing something for the community as a whole, then publicize it. Suitable activities include the offering of tax assistance through public forums, supplying staff for charitable campaigns and blood donor drives among the membership.

In summary, your profession needs to reveal itself positively, with assurance, naturally and consistently. It needs to become known for what it is, the one discipline in the business community in an age when our society is primarily a business one. The national strength depends upon such factors as the credit structure and the orderly flow of investments. An expanding economy promises to make the tasks of management more complex and therefore more dependent on skilled professional aides. Your profession will be measured in the eyes of the public by the sincerity and effort with which its members accept their responsibilities.

Copies of Mr. Kennedy's complete address are available on request from the C.I.C.A.

PRACTITIONERS FORUM PANEL

G. F. Abbott, Montreal; D. B. Davis, Kitchener; A. F. Gosling, Vancouver; N. C. Hagan, Moose Jaw; D. A. Ross, Calgary; L. J. Shaughnessy, Toronto; W. L. C. Wallace, Vancouver.

Edited by CAMPBELL W. LEACH, C.A.

Tax Review

BILL C-68

Royal Assent was given to Bill C-68 An Act to amend the Income Tax Act, on August 1, 1960. Those provisions of the Act taking effect upon the enactment of the bill are accordingly applicable as of that date.

Prior to its enactment, the bill was further revised, at the instigation of the Senate, by deleting paragraph 2 of clause 24. Accordingly, the comments contained in the August issue concerning "Expenses incurred by a predecessor corporation" should be ignored. Also deleted from the bill was a provision concerning the disposal of depreciable property by a trust or estate to the heirs or beneficiaries. As this was not commented upon, no further reference is necessary.

Transfers of Depreciable Property

Four new subsections have been added to section 20 which is already fairly complex, but fortunately, the new subsections apply only in very limited circumstances, that is, where there are transfers of property from one class to another or to a trustee in bankruptcy.

New subsection (5b) provides that where there has been a transfer of property from one class to another, an amount must be added to the capital cost of the old class and the same amount added to the depreciation allowed for the new class. The amount to be added is the greater of:

(i) the capital cost allowance taken in previous years on the property to be transferred (whether claimed erroneously or not), or

(ii) the amount by which the capital cost of the transferred property exceeds the undepreciated capital cost of the entire class before the transfer of the property in question.

It should be noted that the rules prescribed must be followed after there has been a transfer of depreciable property, and they thus assume that upon transfer the original capital cost of the asset is transferred from one class to the other. The subsection may be criticized for not stating specifically that it is the original capital cost which must first be transferred even though any other interpretation would result in absurd adjustments. Moreover, it is not readily apparent why the amount to be added to the old or former class, as outlined above, should be added to the capital cost of that class rather than the undepreciated capital cost. Whether that is an important distinction or not remains to be seen. This subsection becomes applicable upon the coming into force of the amending bill.

Subsection (5b), outlined above, will apply to those situations where new classes are prescribed, where assets used in one type of business are transferred for use in another type of business, or where the taxpayer

elects to include all his property in one class. Subsection (5c) makes provision for the case where property is erroneously included in a particular class (either intentionally or not). If the Minister directs, the property in question must be transferred to the correct class and the rules outlined above applied. This presumably permits the Minister to correct a wrong classification after the time limit for re-assessing has expired. Formerly, the Minister had to make the adjustment in the year of acquisition and, if he did not discover the error before the time limit had elapsed, was unable to correct the situation.

New subsections (10) and (11) make provision for the transfer of depreciable property in the case of the bankruptcy of a corporation at any time after 1959. Subsection (10) provides that property shall be deemed to have been disposed of at its undepreciated capital cost where it has become vested in a trustee in bankruptcy as a result of the making of a receiving order or the filing of an assignment for the benefit of creditors.

It is interesting to note that this subsection refers only to property of a corporation, so that individual bankrupts are not affected. The scope of this amendment is so restricted as to suggest that it is stop-gap legislation. It is also interesting to observe that subsections (10) and (11) confirm the Department's contention that a trustee in bankruptcy is a new taxpayer. This particular point has not been decided by the courts, and there are ample grounds for arguing that such a trustee is not a new taxpayer.

Subsection (11) merely provides for a recapture of capital cost allowances if the trustee, after satisfying the creditors, returns funds to the bankrupt corporation. The amount subject to recapture is the lesser of the amount received by the corporation or the amount received by the trustee on disposal of the depreciable property that would have been subject to recapture if received by the corporation directly. No provision is made for those cases where there is a terminal loss or where depreciable property is transferred back to the bankrupt corporation.

Because of the lack of agreement as to whether a trustee in bankruptcy is a new or different taxpayer or not and the lack of provisions to provide equity if he is, it is sincerely hoped that the whole subject will be reviewed and proper provisions enacted before too long. Certainly the present unsatisfactory state of affairs should not be allowed to persist, especially when one considers that the Department of National Revenue has taxed trustees of a corporate bankrupt at corporate rates, yet considers them to be a new or different taxpayer unable to deduct losses of previous years. If the trustee is a different taxpayer, it is submitted that he must be taxed at individual rates as no trustee in bankruptcy is permitted to incorporate.

Dividend Credit

The appropriate sections of the Act (sections 63(11) and 67(10)) are amended, effective in 1960 and subsequent taxation years, to clearly indicate that a beneficiary of a trust or estate, or the shareholder of a personal corporation, will not be entitled to the 20% dividend credit in respect of amounts added to the income of the trust, estate or personal corporation under section 8 of the Act except for deemed dividends in the form of interest on income bonds or deben-

tures provided for in subsection (3) of section 8.

Death Benefits

A beneficiary of a deceased person who receives a superannuation, pension, death benefit or benefit under a registered retirement savings plan is often subject to double taxation because the amounts are treated as income subject to tax and in certain circumstances are also subject to estate tax. Where this situation occurs, the beneficiary may claim as a deduction from income each year an amount equal to that percentage of the benefit received that the federal and provincial death duties payable on the property in payment or on account of which the benefit is received is of the value of that property. This provision, section 11(1)(v), applies to 1960 and subsequent taxation years in respect of any benefit received upon or after a death occuring after 1958. It eliminates a very bothersome example of double taxation.

The recipient of a single payment out of a pension fund or the recipient of a death benefit paid in the year of death or the year following may elect under section 36 of the Act to exclude the payment or payments from his income and pay tax thereon at the average rate of tax of the deceased for the three years preceding death. This section is amended, effective in 1960, to provide that the amount of the payment in respect of which such an election may be made must be reduced by the amount deductible under new section 11(1)(v), referred to above.

The definition of a death benefit contained in section 139(1)(j) is revised by changing the reference to "employee's remuneration" to "employee's salary, wages and other remuneration". The importance of this change or the reasons for it are not known. The definition of "salary or wages" contained in section 139(1)(ab) is accordingly amended to exclude it from application in the case of death benefits. Where the employee dies without leaving a widow, the exemption is to be prorated among the recipients whereas heretofore the Minister could decide who would have the exemption. Provision is made also for a proration of the exemption where death benefits are received from more than one office or employment. Unfortunately, the provisions concerning the proration are so lengthy and intricate as to defy translation into plain English. These new provisions are applicable to amounts received in respect of the death of an employee after the coming into force of the amending bill.

The definition of earned income contained in section 32 of the Act is amended to provide for the deduction therefrom of amounts deductible under new section 11(1)(v). Also to be deducted are withdrawals from a pension plan that are contributed to another pension plan or to a registered retirement savings plan.

Medical Expenses

For 1960 and subsequent years the maximum deductions for medical expense are increased from $1,500 to $2,500 for a single taxpayer, from $2,000 to $3,000 for a married taxpayer and from $500 to $750 for each dependant up to a total of $3,000 for such dependants.

Assessments

Section 46 is to be amended and as from the date of enactment, the Minister will not ordinarily be able to make re-assessments after four years from the date of the original

assessment or from the date of notification that no tax is payable. Such notification is commonly referred to as a "nil assessment". The date of mailing of an assessment, nil or otherwise, is the date of commencement of the 4-year period. Only if the taxpayer waives the limitation period, as now provided, may the time limit be extended, except in the case of misrepresentation or fraud.

Where the Minister receives a notice of objection from a taxpayer, he may make re-assessment notwithstanding the fact that the four-year period has expired. This provision is the result of several recent cases which held that the Minister could not re-assess because the time limit had expired. It is applicable in respect of any re-assessment whether made before or after the coming into force of this section (subsection 4 of section 58), except where an appeal from any such re-assessment was instituted before the coming into force of this section.

Gross Negligence

A new subsection is added to section 56 to provide that "every person who, knowingly, or under circumstances amounting to gross negligence in the carrying out of any duty or obligation imposed by this Act . . . ." makes any statement or omissions in a return or other certificate is liable for a penalty of 25% of the additional tax that would have been payable if the information had not been withheld or the incorrect statements had not been made. This may be a difficult provision to administer, and presumably it will be applied with discretion. For example, capital gains are not required to be reported by a taxpayer, and there have been frequent cases where taxpayers honestly believed that they had realized gains of a capital nature which were assessed as income and the assessments upheld by the courts. However, it may well be that the existence of this provision will lead to more information being supplied with annual tax returns.

This provision applies only to statements or omissions made subsequent to the enactment of the amending bill. It is also observed that a person who is liable for the penalty described is not liable to pay a penalty under section 56(1) of from 25% to 50% of the tax which he has evaded or attempted to evade. However, section 132 also imposes penalties for improper actions which, if levied, make the penalties imposed by section 56 non-applicable. Section 132 has been amended to provide that the penalties imposed by subsection (1) of section 56 will continue to be non-applicable but that the penalties under subsection (2) will not be affected. Thus, a taxpayer can now be penalized under sections 132 and 56(2) at the same time and for the same offence, if convicted.

Withholding of Tax: Non-residents

Section 109 is amended to provide beyond any shadow of a doubt, that where dividends, interest, rents and royalties are paid or credited to an agent or other person for or on behalf of a non-resident, the agent must deduct or withhold therefrom the tax exigible on such payments. If this is not done, the agent or other person must pay the tax on behalf of the non-resident and is entitled to recover the tax so paid from the non-resident.

The penalty on a person who has failed to deduct or withhold the tax is reduced from 100% to 10% of the amount that should have been deducted or withheld.

Technical Changes

The increased provincial tax credit of 13% for individuals resident or carrying on business in Quebec is extended to the 1960 and 1961 taxation years.

For 1960, children in respect of whom amounts are paid as family assistance to immigrants and settlers will continue to be classed as children qualified for family allowances.

In accordance with the changes to section 41 relating to foreign tax credits, those sections relating to the foreign tax credit allowed to beneficiaries of estates or trusts or shareholders of personal corporations have been similarly amended so that the same credits will be available.

Section 37(1) is amended so that the wording concerning loss carry-forwards conforms to the new wording of section 27(1)(e) introduced in 1958.

Section 43A is amended to change the reference to section 14 to subsection (2) of section 14.

The Tax Appeal Board membership is increased from 4 to 5 members, in addition to the chairman.

Section 139(1)(az), defining income from a source, is repealed as a result of the addition of new section 139(1a) defining income from a source. The definition of tax payable is extended to include the tax payable under Part IIC of the Act.

Comment

The Canadian Income Tax Act as originally conceived has been praised as a well-drafted statute, the provisions of which were clearly worded and easy to understand. Over the years, the annual revisions have tended to embellish the Act with intricate provisions that sometimes test the patience of the taxpayer. It may be that this is inevitable and that the time may come when much of the Act will be incomprehensible to all but the experts. This development is generally conceded to be most undesirable, and any steps that can be taken to avoid this situation ought to be considered by all concerned.

It is usually unfair and inappropriate to criticize the honest and well-intentioned efforts of the government to make the Income Tax Act, or any Act for that matter, more equitable. However, compared with bills of previous years, Bill C-68 does not measure up to the established standard for clarity and completeness, and a word of protest is therefore being reluctantly made.

The new definition of a "death benefit" is certainly intended to be equitable and to provide for almost all situations that might arise. However, it is so complicated that its meaning can only be disinterred with great difficulty, if at all. Where the employee has one employer only and leaves a widow to whom the death benefit is paid, the amount of the benefit not subject to tax is easily found in one paragraph. However, where there is no widow or "where no amount is deductible in computing for any year the death benefits received by his widow", the situation becomes confused. Attempts to unearth the proper meaning have brought to mind the plight of Christian in "The Pilgrim's Progress", to wit, "And as he read he wept and trembled, and not being able longer to contain himself, he broke out with a lamentable cry . . . ."

Another matter which invites criticism is the amendment involving transfers of depreciable property from bankrupt corporations. It deals only with one of the many problems that

may be created by bankruptcy, and it is questionable if a weakness of the Income Tax Act in this area should be corrected piecemeal. The Act contains no specific references to trustees in bankruptcy and provides no general rules as to how they are to be treated for tax purposes. Surely this situation should be rectified as soon as possible. In the meantime it should be definitely determined if a trustee in bankruptcy acts on his own behalf or on behalf of the bankrupt for tax purposes. It is submitted that if this problem is thoroughly and equitably reviewed, no other conclusion can be reached than that the trustee should be treated as acting on behalf of the bankrupt.

It is appreciated that the lot of legal draftsmen is not always an easy one, but on the other hand, the happiness of a single draftsman is of less public concern than that of numerous taxpayers. At the same time, it should not be overlooked that the draftsman merely translates into legal language the ideas of others and they too share the responsibility for incomplete and inadequate legislation.

* * *

BILL C-73

Bill C-73, An Act to amend the Excise Tax Act, received Royal Assent on July 7, 1960. Changes not previously reported are as follows:

Coverings

The exemption from sales tax for coverings was changed twice from the original proposal and now reads as follows:

> Usual coverings or usual containers to be used exclusively for covering or containing goods not subject to the consumption or sales tax but not including coverings or containers designed for dispensing goods for sale or designed for repeated use other than
>
> (a) barrels, boxes, baskets, crates and bags for packaging fruits and vegetables
> (b) boxes and crates for eggs,
> (c) butter and cheese boxes,
> (d) cans and insulated bags for ice cream,
> (e) corrugated paper boxes for bread,
> (f) flour bags,
> (g) milk and cream bottles, milk and cream cans; and
>
> materials to be used exclusively in the manufacture of the foregoing coverings and containers not subject to consumption or sales tax.

Building Materials

The new exemption for copper tubing reads

> Drainage, waste and vent copper tubing from two inches to six inches in diameter, with a wall thickness from .040 to .083 of an inch, for non-pressure applications, and fittings therefor.

"ACCOUNTING TERMINOLOGY"

From time to time the Accounting and Auditing Research Committee of the Canadian Institute of Chartered Accountants has received suggestions as to additional words that might be included in "Accounting Terminology". The committee would be grateful for the comments and suggestions of our readers regarding words they would like to see defined in this publication.

BY PETER C. BRIANT, PH.D., C.A.

Current Reading

MAGAZINE ARTICLES

FINANCE

"STOCK MARKET WARNING: DANGER AHEAD" by Benjamin Graham. *California Management Review,* Spring 1960, pages 34-41

Mr. Benjamin Graham, a veteran of 40 years on Wall Street and a distinguished authority on security values, views the current level of stock prices with "grave misgivings".

Investors should prepare themselves, he advises, for a 40% shrinkage in stock prices, especially if they envisage such a drop as taking place from a level far above the current average. The decline may be even greater, in Mr. Graham's view, since the record shows that declines have tended to be roughly proportional to the previous advance. On this basis, a market decline of about 46% may be anticipated. Being still more pessimistic, and applying the principle that "the higher the market advances above a computed normal, the further it is likely to decline below such normal", Mr. Graham demonstrates that the corrective downswing could result in losses of 84% of market prices.

Financial and economic data which place the present stock market quantitatively in relation to past bull markets provide a factual basis for Mr. Graham's pessimism. The ratio of price to earnings and to dividends are now just about where they were at the top of the market in 1946, 1937, 1929, and are about 2½ times the ratios of ten years ago. Earnings between 1949 and 1959 increased 50% or less. During the same period, the interest rate on highest grade bonds advanced from 2.65% to 4.55%. Thus, if the proper rate of capitalization of current earnings were to vary with long-term interest rates, common stocks would be worth less now than in 1949. They are actually selling at prices 4 times the 1949 levels.

Evaluating economic factors claimed to be new and favourable to the business climate and to stock prices, Mr. Graham discounts the impact of growth prospects of the American economy and inflation. The previous period of greatest enthusiasm about American economic prospects, he points out, coincided with the tumultuous bull market of the late 1920's. Common stocks were considered intrinsically sounder than bonds. The apparent danger of stock yields below bond yields was explained away on the ground that the growth factor would more than repay the stock buyer for his present sacrifice of income return. Inflation, according to Mr. Graham, has been chiefly a subjective market factor. It has exerted an important bullish influence only when wholesale prices and the stock market happened to be rising at the same time. Investors, he says, seem to forget about inflation when stocks turn definitely downward.

Of other economic factors, govern-

ment stabilization policy and the cold war, with its huge defence expenditures, tend, in Mr. Graham's opinion, to stabilize common stock earnings and dividends. This should lead to higher normal or central values for common stocks generally. But, warns the author, the fluctuations around these levels may be wider than in the past. Since no one has any clear idea of just how the new central values are to be determined, the resulting process of trial and error may lead to speculative excesses on the upside and undue pessimism on the downside.

On the whole, Mr. Graham believes that the present level of stock prices is an extremely dangerous one.

"MUTUAL FUNDS AS AN INVESTMENT" by Stuart B. Mead. *Business Topics*, Spring 1960, pages 43-57.

This article surveys comprehensively various facets of mutual fund operations and performance for the benefit of the general reader who is considering investing in such a fund. The author distinguishes the various types of mutual funds, contrasts the performance of selected funds in each classification between 1950 and 1959, and presents data on the return to an investor who purchased the shares of mutual funds in the decade of the fifties. His figures demonstrate, among other things, that an investor cannot expect growth and income from the same source. Common stock funds, which showed an average growth of 118.7%, produced a return of less than 3%. On the other hand, income funds, which had a very low average growth of 44%, had an investment income return of almost 5%. Certain funds were far ahead of the average, indicating that care should be taken in selecting a fund in which to invest.

Before buying shares in a mutual fund, the investor should, Mr. Mead suggests, study the growth in net assets, the portfolio of the fund, and the quality of the management. As to the last point, he advises against funds that fill their portfolios with large blocks of high-grade securities. This practice, he writes, hardly affords buyers the service due them. The heavy loading charge and management fee should, he continues, reward the purchaser with something more than he could have obtained by consulting any reputable broker.

A decision to invest in a mutual fund should be made against the performance one can achieve alone, suggests the author. If, as an investor, you are able to better the stock market averages or the fund averages, the purchase of mutual fund shares should hardly be considered. But if you are a novice, if you are unable to obtain any degree of diversification, or if your investments lag behind the averages, mutual funds may assist you. No one fund will give the purchaser large capital gains, high income, and price stability. An investor must first decide what he desires most. He should then buy shares in the type of fund that meets his primary goal. Through the purchase of shares in more than one fund he can attain diversification and satisfy his secondary investment goals. Fund diversification will also protect the investor against a temporary lag in a given fund, while enabling him to meet various investment objectives.

"SECURITY ANALYSIS" by Lawrence R. Kahn. *The New York Certified Public Accountant*, June 1960, pages 406-415.

This article surveys the field of security analysis and the factors which enter into a successful investment pro-

gram. The author identifies the tools of analysis, reviews the available analytical and advisory services, and presents the principal investment objectives which govern the composition of an investment portfolio. He also discusses the important principles affecting the selection of specific stocks and bonds within the framework of varying objectives: investment for income or growth, speculation, or gambling.

There is little in this article that is original, but one or two points are worth mentioning. On the selection of bonds, the author points out that the ratings by the three rating services are far more important to trustees and institutions than to the average investor. For the latter, he suggests that bonds rated "BBB" or "B1+" and higher are satisfactory. With the quality set, the remaining influence on selection is yield. This varies with the state of the money market, availability of bonds, and rated quality. As institutions are usually restricted to bonds of "A" rating or better, the individual purchaser pays premium prices for top quality bonds. Bonds of a "BBB" rating are usually more attractive than institutionally rated issues, and offer about the same degree of safety.

As to the price/earnings ratio of common stocks, Mr. Kahn suggests that the traditional yardstick of 10:1 is no longer too meaningful. He would compute instead the average multiple an issue has commanded for three years at its high and its low. If the issue is at, or above, its high multiple, he would regard the issue as overpriced unless real changes have improved the company's picture. Conversely, if the ratio is low, the issue would be attractive unless something is wrong with its prospects.

Mr. Kahn also warns against three "popular" myths. First is the mysterious "they" who are doing this or that to some issue. Concentrated efforts, he says, rarely have a bearing on the price of a stock. Secondly, he continues, the amount of sponsorship any issue gets, except during an underwriting period, is pretty limited and is not a good reason for purchase. Finally, says Mr. Kahn, "inside information", except in relation to such short-term effects as a prospective dividend increase, stock split or merger, is frequently useless. Some people closest to a company are chronically too bearish on their company, while others are too bullish.

MANAGEMENT ACCOUNTING

"PAPERS ON CAPITAL OUTLAY EVALUATION AND OTHER ASPECTS OF RETURN ON INVESTMENT". *N.A.A. Bulletin, Sect. 1*, June 1960.

The interest of accountants continues to centre very strongly around the return on investment approach to financial planning and control. As a reflection of this interest, section 1 of this issue of the *N.A.A. Bulletin* is entirely devoted to the use of the rate of return approach to evaluate or rank capital outlay proposals.

There are in total 11 articles, with the discounted-cash-flow method of application emphasized by a number of authors. However, one article reports upon a survey of the use of return on investment information, showing the calculation methods used and the applications that are favoured. Other articles deal with special matters related to the determination and employment of the return. Of interest also is an article which evaluates the alternative asset bases (gross assets, net assets, original cost, and replacement value) used for return on investment calculations.

MARKETING

"CAPITAL GOODS MARKETING IN THE NEXT DECADE" – Reported. *The Controller*, June 1960, page 298.

Markets in the sixties for the capital goods industry will be intensively competitive and will require new methods and techniques to serve them, it is reported. Problems and opportunities are foreseen in six areas: foreign marketing, market research and new product development, selling engineering knowledge, the replacement market for capital goods, financing, and marketing costs.

Goods that were merely shipped abroad must now be *sold* abroad as competition in foreign markets increases. Research and development is causing product lines to be crossed within and between industries, resulting in intra-industry competition. Financial devices and techniques should be reviewed in the light of marketing considerations. Captive finance companies, for example, have frequently been overlooked as a marketing tool.

As production becomes more automatic, production costs become a smaller component of total costs. Control of marketing costs and maximization of the value added by marketing expenditures thus become increasingly important. What is needed, concludes this report, is to put the same spotlight on marketing costs that for so many years has been focused on production costs.

BOOK REVIEWS

"An Accountant's Working Papers" by Frederick A. J. Couldery; published by Gee & Co. (Pub.) Ltd., London; 106 pages; 18/6d.

This small volume, two-thirds text and one-third appendices, is written by a practising English chartered accountant on the form and content of working papers to meet the requirements of U.K. practice.

The author concerns himself primarily with working papers necessary for the preparation of final accounts and sufficient for the answering of all questions raised by the tax authorities. His discussion is therefore keyed to the demands of U.K. legislation. It is only in occasional supplementary references that he refers to working papers for the purpose of audit, and such references are of course related to U.K. standards.

The book is therefore of limited value to Canadian chartered accountants and students, although it could serve the occasional purpose of clarifying those sometimes obscure references in correspondence from U.K. clients and associates.

A. F. SELLERS, C.A.
Toronto, Ontario.

"Studies in Company Finance" – A symposium edited by Brian Tew and R. F. Henderson; published by Macmillan Co. of Can. Ltd., Toronto; 302 pages; $6.00.

In writing this book, the authors have undertaken an enquiry into the value, for the purpose of economic analysis, of company accounts published in Great Britain after the passing of the Companies Act, 1948. This Act, among other things, brought about a greater degree of standardization in the form and classification of published accounts than had previously existed and provided an opportunity, perhaps for the first time, of making a comparative study of trends and practices in company financing as revealed by the information available in published form.

This book is written from the point of view of the economic researcher

rather than the shareholder, and presents a symposium of studies by a number of contributors under the editorship of Brian Tew and R. F. Henderson.

The survey includes an analysis of the financial position of a selected group of British companies engaged in trade and manufacturing whose shares were quoted publicly on the stock exchanges. It is based on the 5-year period 1949-1953, and includes 2,549 companies producing about half the total output of British manufacturing industries. The material is divided into two parts: the first, a series of general studies comprising the first 9 chapters; the second, a series of individual studies of particular industries such as brewing, cotton, building materials and pottery, electrical engineering and electrical goods, and others.

By making use of a particular source of data, namely the published accounts of public companies, the authors have examined the rate of company growth during the period of the survey, prevailing practices with respect to dividend policy, and the degree to which public companies rely on profits, bank credit, trade credit and new stock issues to finance current operations and future expansion.

The book will be of interest to those who are concerned with broad trends in the field of corporate finance.

D. G. Scott, C.A.
Montreal, Quebec.

Publishers' Addresses

Business Topics, Graduate School of Business Administration, Michigan State University, East Lansing, Mich.

California Management Review, Graduate School of Business Administration, University of California, Los Angeles 24, Cal.

The Controller, 2 Park Ave., New York 16, N.Y.

N.A.A. Bulletin, National Association of Accountants, 505 Park Ave., New York 22, N.Y.

The New York Certified Public Accountant, 355 Lexington Ave., New York 17, N.Y.

Gee & Co. (Pub.) Ltd., 27-28 Basinghall St., London E.C. 2, England.

Macmillan Co. of Canada Ltd., 70 Bond St., Toronto 2, Ont.

Edited by D. C. R. HORNE, C.A.

Students Department

YOUR PROVINCIAL INSTITUTE

This article is offered particularly to those students who commenced their studentship this year, but at the same time it should prove informative to others who have not taken the opportunity to enquire into the why's and wherefore's of their provincial Institute. It is written in the conviction that all present and future members have obligations to their Institute, one of which is to have a knowledge of the purposes and functions of the body which grants them the right to use "C.A."

First, let us at this point set straight a possible misunderstanding in the minds of some respecting the letters "C.A." and variations thereof. "Chartered Accountant" is not a degree, as it is frequently termed in discussion and writing. The right to confer a degree belongs exclusively to such educational institutions as colleges and universities, and once conferred a degree may not be revoked. Instead, "C.A." is a qualification, appellation, or designation, indicative only of qualified membership in good standing of an Institute of Chartered Accountants, and granted on completion of prescribed requirements as to entrance, courses, examinations, and employment by a member in public practice (in most cases). The letters, which properly follow one's name after decorations and degrees, may be used only in the province of the Institute in which membership in good standing is enjoyed. The Council of the Institute may suspend or expel a member in accordance with its by-laws, and such action revokes the right to use the designation either temporarily or permanently. A member who resigns his membership loses his right to designate himself as a C.A. On moving to another province, members must be admitted to its Institute before "C.A." may be used in that province.

Generally, there are two types of membership, denoted by the terms "associate" and "fellow". The former is the type granted new members on admission, who use the letters "C.A." or "A.C.A.", although in Canada the former is almost invariably used (in contrast to the custom in the U.K.). An associate may be elected a fellow by his Institute in recognition, usually, of distinguished service to the profession, and he then uses the letters "F.C.A." This, again, differs from the practice in the U.K., where an associate becomes a fellow after a certain number of years in stipulated circumstances. There exists in some of the provincial Institutes a third type of membership — honorary — which may be granted to non-members for special reasons, but an honorary member is not entitled to the privileges of membership, including the use of any appellation denoting such membership.

Students, too, may be officially given different terms such as "articled

clerk" or "registered student". In some provinces they may not be recognized at all by the Institute until the completion of certain requirements. Students may or may not be a party to a written agreement ("articles"). In spite of the existence of such a contract, a student may effect his transfer from one firm to another with the consent of his principal and the Institute, or, in fact, the Institute may itself reassign a student when it is in his best interests.

In all the provinces of Canada there is an Institute of Chartered Accountants, all of whose members (now totalling more than 9,000) are *ipso facto* members of the Canadian Institute of Chartered Accountants (of which more later). These Institutes were created by Acts of the respective provincial parliaments, the earliest, the Quebec Institute, having been incorporated in 1880 as "The Association of Accountants in Montreal".

These provincial Acts confer on the Institutes the rights and powers with which their affairs and members are regulated. In keeping with the B.N.A. Act, which granted exclusive rights in the field of education to the provincial parliaments, the provincial Chartered Accountants' Acts give to the Institutes the right to determine entrance requirements, courses of instruction, examinations, and other prerequisites to admission as a member. It is for this reason that requirements vary between provinces both for students and for members seeking admission by affiliation from another Institute.

The Acts also set the framework for the organization and direction of the Institutes' affairs, of which the following is generally descriptive.

The governing body is termed the "Council", which is elected annually by the general membership, sometimes on a geographical basis. The Council elects one of its members as president for the year of its tenure of office, and it is his responsibility, *inter alia,* to lead the Council in its handling of Institute matters, to represent it at various functions, and to see to the proper administration of the Act, the by-laws, and the Institute office. Also elected by Council are one or more vice-presidents, and usually a treasurer and a secretary; there may be appointed also an executive secretary, a full-time officer who directs the staff and carries out many duties on behalf of the Council. None of the elected members is compensated for his services, and there are indeed few presidents who do not incur considerable personal expense in discharging their official obligations.

Much like a provincial government premier, the president appoints members, not necessarily members of the Council, as chairmen of the many committees required. Standing committees include those dealing with education and examinations, membership, social functions, public relations, finance, research, taxation, ethics, conferences, legislation, etc. Special committees may be struck for particular purposes, such as to enquire into Institute accommodation, revision of bylaws, and so on.

The Institute's representatives to the C.I.C.A., the national coordinating body which has its offices in Toronto, are usually appointed by Council. From among these provincial representatives, whose numbers are determined by quota and who comprise the Council of the C.I.C.A., the national president and other officers are elected each year. The presidency is on a rotation basis among the pro-

vinces, with a result that the C.I.C.A. conferences are held annually in the province of the retiring president and hence move from one area to another every year.

In the main, the C.I.C.A. functions, if capable of a one-word description, are of a coordinating nature. For a detailed review of them, the reader is referred to page 51 of the July 1958 issue of *The Canadian Chartered Accountant*. Suffice it to say here that the organization of the national body generally parallels that of a provincial Institute, and has as one of its aims the maintenance of standards between provinces.

There are two groups of particular interest to the student which exemplify the coordinating function of the Canadian Institute.

The first is the Provincial Institutes' Committee on Education and Examinations, comprising representatives of the provinces, whose chairman is appointed by the C.I.C.A. president.

The other is the Board of Examiners-in-Chief, of similar composition to the foregoing committee.

Between them, these two groups determine (subject to local variations and legislation) the basic courses of instruction or basic syllabus, and the national uniform examinations at the intermediate and final levels. The Board, as you will undoubtedly learn, sets and directs the examinations each year; for a detailed description of its functions, and in particular of the extreme care exercised in the marking of papers, you are referred to "Chartered Accountant Examinations in Canada", a booklet published by the C.I.C.A.

There is yet another organization in which all students should take an active interest as part of their training and preparation for participation in Institute affairs following admission. This body may be termed the "Students' Society", and details concerning it are obtainable at the provincial Institute's office.

While the Institute will do its utmost to keep students informed on matters of interest and importance to them, each one should appreciate that the prime responsibility is his for observing requirements, making applications for course enrolment or examinations, and so on. It should never be expected that the Institute will, to use the old saying, spoon-feed each student. Instead, it is rightly expected that each will assume his responsibility as part of his training for taking later responsibilities vis-à-vis his employer or clients.

Perhaps this brief discression has brought you some hitherto unknown information — sufficient, possibly, to demonstrate there is much one ought to learn about his society before he can truly honour his membership in it.

—ED.

TREATMENT OF JULY ACCOUNTING PROBLEM

The problem: Companies in a certain line of business are paid a lump-sum grant by the federal government upon completing the construction of a particular type of fixed asset. The object of the grant is to encourage investment in certain types of capital equipment. How should such a grant be treated in the accounts of a company receiving it — as a reduction of the cost of the asset in respect of which it is received, or as a form of surplus?

Suggested treatment: The grant should be treated as a form of contributed surplus, contributed by the government. It is true that the cost of the asset to the shareholders is reduced by the grant, but the amounts

at which a company's assets are valued are significant for people other than shareholders (bondholders, for instance), and for these other people a gift to the shareholders is not relevant. Accounts must be kept by valuing the assets first and then determining the equities in those assets, with the shareholders getting the residual after all other claims have been met, not by attempting to assess the equities first and then valuing the assets accordingly. The cost of an asset is the value of the things that must be given in exchange for it, regardless of who puts them up.

The error in crediting the grant to the cost of the asset becomes obvious when one considers the result it would produce in the extreme case where all the assets were given to the shareholders. A balance sheet for the company would then show no assets and no shareholders' equity.

The argument that the asset is worth less to the extent of the grant because anyone else could construct one and obtain the grant, and therefore would not pay more than the cost of construction less the grant, is not a valid one. Their sale market value is not relevant to the valuation of fixed assets for accounting purposes. If it were, the valuations attached to the fixed assets of many companies would have to be reduced.

—J.E.S.

ON SELF-IMPROVEMENT

At this time, as the 1960-61 courses are soon to commence, it is appropriate to moralize on the full question of self-preparation for a successful career.

It is to be remembered that the prescribed courses constitute specialized professional training, and it is perhaps a misnomer to label them as "education" in the same sense as when speaking of an education obtained at an institution of learning. The pursuit of these courses can lead to qualification as a C.A., but one must realize there are other important qualities which distinguish the leading students and, later, the more successful graduates.

It is these other features that will be discussed here.

Ranking at or near the top in importance is the command of the language, both written and spoken. Much criticism has been levelled at schools and sometimes universities over the fact that among their graduates there is a high percentage of young men who exhibit poor grammar, composition, and vocabulary. This inability is very often the cause for non-acceptance of applications for positions in the profession, and for those accepted the fault is a serious drawback to their progress and success. Examiners, too, complain of the poor expression of many candidates. Sometimes it is so bad that an answer cannot be understood sufficiently to merit very many marks, if any. Employers are frequently disappointed with their students' efforts at letter and report writing, and it is indeed sad when the drafts contain incomplete sentences, sloppy punctuation, misspellings, and disjointed composition.

This lack of facility seriously impedes progress and limits a student's usefulness. The Institutes, we venture to say, are keenly aware of the problem, but there is little they can do; English cannot be taught, or even appreciably improved, in any short course which an already heavy curriculum might permit. Of necessity, therefore, it is entirely up to the in-

dividual to adopt such measures as will overcome this weakness if it is his.

What avenues can lead to improvement? Reading, with attention to grammar and composition, is an obvious, but excellent one, provided the material is of suitable standard. Good books, professional journals, popular digests, and so on are all proper choices. Such reading has an additional benefit of enhancing one's knowledge of current affairs, so necessary to a well-rounded, interesting person. The daily study of a dozen or so words from a dictionary greatly improves force and colour of expression; commuters might well exchange their pocket novels for pocket dictionaries. Conscious attention should be paid to faults in conversation and to the avoidance of slang. Pride and interest in written and spoken expression can change challenge to success, but the will must come from the individual.

Public-speaking classes are also an excellent vehicle to improvement, for by their very nature they maintain an awareness of how things are being said rather than of the story. A dividend is the self-confidence such courses induce.

More direct measures include private tutoring, attendance at evening classes in English, and private study of a grammar text. There are many opportunities to enhance one's career through language, but the pity of it is that too few people will admit the need.

Personal appearance is another contributor to success that is often given short shrift. Unruly or uncut hair, poor shaves, ill-kept hands, cavities in the teeth, bad breath, dandruff, etc. are examples of poor grooming which carry much importance, and it is inexcusable to be chronically guilty of inattention to them. Equally, there is no forgiveness due the person who seems never to wear a well-pressed suit, polished shoes, fresh shirt, or a neat tie. One need not always wear brand-new clothing, even if one could afford it, but at least one's clothes should be clean and well-kept. It really should not be necessary to say that business suits should be the standard of dress; sports shirts or jackets, sporty shoes, and loud ties are to be avoided, and the limit in this area should be blazer and flannels.

Development of a pleasant, attractive personality is often neglected, with great detriment to the individual. Brashness, pugnacity, shyness, verbosity, sarcasm, hauteur, casualness, to mention a few traits, all have their good uses, like spices in cookery, but the continuous, indiscriminate display of such undesirable characteristics can seriously impede an otherwise good career. It is not implied that one should seek a neutral personality, rather, that the better of the existing traits should be cultivated, and the poorer sublimated. Some of the most eminent men in all fields have reached the top by force of personality rather than technical brilliance, and in this lies the moral of this paragraph.

Outside the realm of personal attributes, other pursuits, such as personal and business contacts, specialization, community activities, businessmen's clubs, are vital to a satisfying career. These are important to the furtherance of progress in the later part of the pre-qualification and in the post-qualification periods. It is only logical that the non-entity should not have an odds-on chance of being admitted to partnership, for example, simply because he lacks a required

value for which even a very high standard of technical competence might not compensate. Nonetheless, the cultivation of such connections should not be entirely left to later years, for in later years one's former contemporaries will be one's contacts in business.

There may be some who entertain the idea that on obtaining a professional standing such as C.A., such alone will be their "open sesame", and further learning and self-improvement are unnecessary. Let them hearken to the words of the convocation speaker who told a graduating classs of doctors that they were receiving their licences to charge while they learned!

Therefore, let the new student be put on notice by these thoughts; let the experienced student take stock of his position in the areas discussed; and let the young graduate appreciate the very distinct possibility of some fault mentioned here being the unknown reason for the sticking-point in his progress.

—ED.

PROBLEME PRATIQUE

La compagnie X paie des commissions annuelles à ses vendeurs sur la base suivante: 2% sur le profit avant la dépréciation mais après le calcul de l'impôt. Le profit avant les commissions mais après la dépréciation pour l'année financière se terminant le 31 décembre 1959 s'élève à $32,-487.50. La dépréciation inscrite aux livres et réclamée pour fin d'impôt est de $26,520.30. On vous demande d'effectuer le calcul des commissions pour 1959.

NOTES AND COMMENTS

To all those writing intermediate or final examinations next week, we offer our sincere best wishes for success.

* * *

Have you experienced an incident in the course of your work that might serve as an object lesson or be otherwise instructive to other students? This department will award $5.00 on publication of your write-up of such an incident, while reserving the sole right to judge its suitability for publication here, and to edit any such material received. Narratives should not exceed 300 words; authors' names will *not* be published unless otherwise specifically requested.

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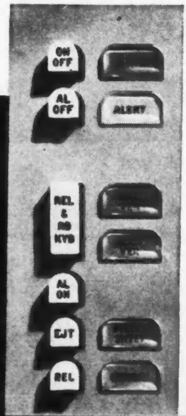

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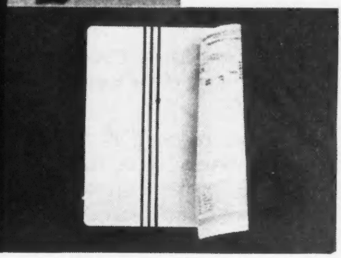

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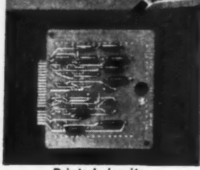

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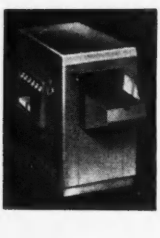

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NEWS OF OUR MEMBERS

Alberta

Nash & Nash, Chartered Accountants, announce that W. K. Adams, C.A. has joined W. R. H. Nash, C.A. in their Calgary office.

British Columbia

J. J. Brown, C.A. announces the opening of an office for the practice of his profession at Rm. 308, Mercantile Bank Bldg., 540 Burrard St., Vancouver 1.

R. A. Shand, C.A. has been installed as president of the Central Lions Club, Vancouver.

Ross, Touche & Co., Chartered Accountants; Touche, Ross, Bailey & Smart, Chartered Accountants, announce the removal of their offices to Ste. 201, Times Bldg., 630 Fort St., Victoria.

Helliwell, Maclachlan & Co., Chartered Accountants, announce the removal of their Vernon office to 3000 - 30th St., Vernon.

Gibbs & Jermain, Chartered Accountants, and Hofstrand, Ellis & Quelch, Chartered Accountants, announce that their practices will be carried on jointly with offices at 630 Fort St., Victoria, and 1045 W. Pender St., Vancouver 1.

Manitoba

E. W. Pope, C.A. has been elected president of the University of Manitoba Alumni Association.

L. C. Finnen & Co., Chartered Accountants, Winnipeg, announce the admission to partnership of W. Roy Finnen, C.A.

Deloitte, Plender, Haskins & Sells, Chartered Accountants, and William Young & Co., Chartered Accountants, announce the amalgamation of their practices with offices located at 60 Osborne St. N., Winnipeg 1.

Sweiden & Rice, Chartered Accountants, announce the removal of their offices to 207 Lindsay Bldg., Notre Dame Ave., Winnipeg.

Ontario

R. J. Rooks, C.A. has been appointed office manager of Purolator Products (Canada) Ltd. Toronto.

W. E. Davies, C.A., M. E. Grant, C.A., G. F. Denning, C.A. and G. J. Benn, C.A. announce the formation of a partnership for the practice of their profession under the firm name of Davies, Grant, Denning & Benn, Chartered Accountants, with offices at 27 Talbot St. W., Aylmer, and Ste. 410, 200 Queen's Ave., London.

Walter Ross, C.A. has been appointed comptroller of the Ontario Water Resources Commission, Toronto.

D. C. Pace, C.A. has been appointed treasurer of Amalgamated Electric Corporation, Toronto.

James M. Dunwoody & Co., Chartered Accountants, announce the removal of their offices to 8 Second St. W., Cornwall.

J. R. Backus, C.A. has been appointed administrator of the Oshawa board of education.

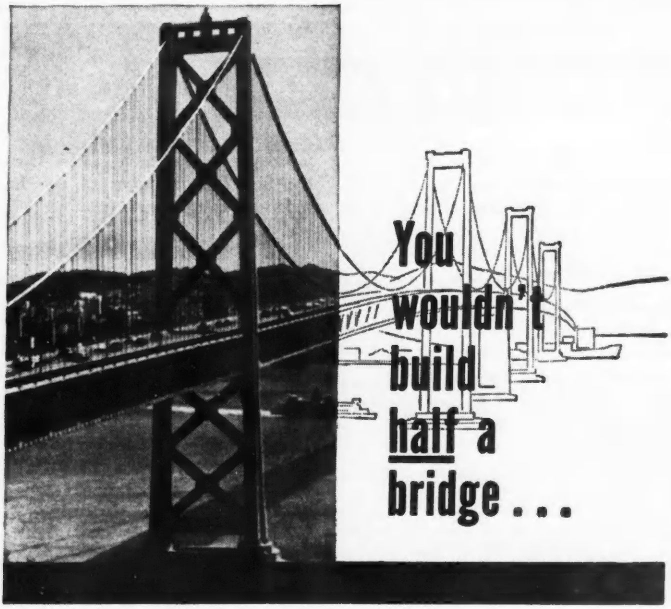
John Smurthwaite, C.A. announces the opening of an office for the practice of his profession at 726 Salisbury House, London Wall, London E.C. 2, England.

M. A. Hassal, C.A. announces the removal of his office to 189 Park Row Ave. S., Hamilton.

F. W. Hurst, C.A. has been appointed vice-president, treasurer and assistant secretary of The Consumers' Gas Co., Toronto.

Saskatchewan

J. R. Fewster & Co., Chartered Accountants, announce the admission to partnership of A. G. Ayers, C.A. Henceforth the practice of the profession will be conducted under the firm name of Fewster, Kirkpatrick, MacDonald & Ayers, Chartered Accountants, with offices at 321, 21st St. E., Saskatoon.



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INSTITUTE NOTES

NEWFOUNDLAND INSTITUTE

The annual meeting of the Newfoundland Institute took place on June 20. F. D. Woolgar was re-elected president, and Stan Inkpen vice-president. Miss Janet Dawe will again serve as secretary-treasurer. Members of Council are J. W. Conway, Robert Leith, P. J. Gardiner, E. M. Hunter, J. B. Marshall and John Hyslop.

The meeting was addressed by Renny Englebert, editor of *The Canadian Chartered Accountant*.

SASKATCHEWAN INSTITUTE

The 52nd annual meeting of the Institute of Chartered Accountants of Saskatchewan was held in Swift Current on Thursday and Friday, June 23 and 24. Approximately 60 members of the Institute attended.

The following officers were elected for the 1960-61 year: R. M. Dill (Saskatoon) president; C. A. Fraser (Saskatoon) vice-president; M. V. Jeffery (Swift Current) past president; T. H. Moffet (Regina) secretary.

Members of Council completing two-year terms are: J. C. Archibald, C. Fraser and C. F. Westerman. Council members elected this year are: W. E. Clarke, N. C. Hagan, R. G. McCartney and J. Parker.

The following were elected Fellows of the Institute: Ian Forbes, Regina; A. M. Goldie, Regina; Reginald Hodsman, Regina; E. A. Rawlinson, Prince Albert; Miss Georgia Goodspeed, Saskatoon. Miss Goodspeed is the first lady member of the Institute to receive this honour.

ALBERTA INSTITUTE

The 50th annual meeting, marking the golden anniversary of the Institute of Chartered Accountants of Alberta, was held in Edmonton, June 23-24, 1960.

The speaker at the technical sessions held at the Northern Alberta Jubilee Auditorium was Mr. J. Fleury, personnel consultant, John W. Fleury and Associates, Limited, Vancouver, B.C., whose topic was "How's Your Student Guessing Quotient?" A session on "The Post-Graduate Training of the Chartered Accountant" was conducted by G. E. Pearson with the assistance of W. J. Astle, E. A. Geddes, and G. H. Jarman who are members of the Alberta Committee on Continuing Education. Another technical session, under the heading of "Educational Requirements of the Profession", was under the leadership of E. A. Christenson, chairman of the Education Committee, with the assistance of W. F. Anderson, D. L. Brandell, E. A. Geddes and J. G. Simonton who acted as group leaders. During the afternoon an "Income Tax Panel" was led by G. C. Berge together with J. K. Ferguson, S. H. Pirot, D. D. Bentley and J. P. McClary.

Officers and Council members elected at the annual meeting were: president H. G. Thomson; vice-presidents, D. A. McGregor and E. A. Christenson; treasurer, D. B.

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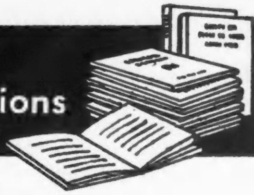
List of C.I.C.A. Publications



BOOKS and BROCHURES

MINING ACCOUNTING IN CANADA
A clear and concise explanation of the accounting treatment of problems peculiar to the mining industry $3.00

FINANCIAL REPORTING IN CANADA (3rd ed. 1959)
An analysis of reporting practices of 300 Canadian companies —
(members $4.00) $5.00

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Survey of Economics prepared by members of Queen's University, based on Economics notes used by Institute Course of Instruction (members $4.50) $5.50

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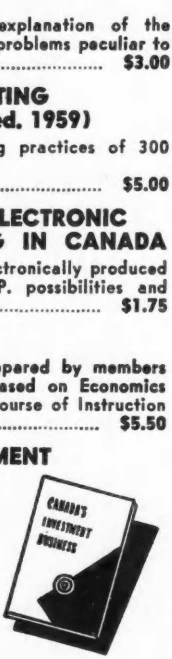
One of the best booklets on the mysteries of the investment business — Toronto Globe & Mail $1.75



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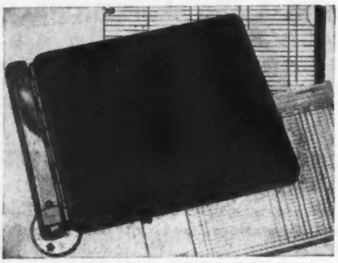
69 Bloor Street East Toronto 5, Ontario

Barr; secretary, W. F. Anderson; Council members, A. W. Bell, E. A. Geddes, J. G. Hutchison, F. L. Symes, J. D. Campbell, D. R. Hagerman and D. J. Morrison.

At the annual luncheon the election of three new fellows of the Institute was announced. They are R. P. Alger and J. G. Simonton, both of Calgary, and G. E. Gee of Edmonton.

QUEBEC INSTITUTE

***Students Society*:** The following were elected to the executive of the Students' Society: president, J. R. Girard, C.A.; vice-president, Henry Garbacz, C.A.; vice-president, Barry Clamen, C.A.; secretary-treasurer, Jacques Clermon; committee: Arthur Beaudoin, W. Corner, C.A., Gaétan D'Aoust, Pierre David, J. D. Fulford, Camille Gallant, G. E. Goodchild, A. A. Kennedy, André Legault, C.A., J. E. Lyng, C.A., C. E. T. Moss, R. P. Simpson, Jacques Stuart; Council representatives: F. J. Bastien, R. G. Bremner.



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PRACTICE WANTED in Kitchener area. Purchase, succession arrangement or position leading to partnership. Box 267.

CHARTERED ACCOUNTANTS required: British Columbia firm seeks qualified men for branch managers and field supervisors. Age range 25 to 35. Acceptable training, experience and compatibility can lead to partnership. Box 260.

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CHARTERED ACCOUNTANT: Initiative and ambition are sought in a young chartered accountant interested in responsibility and prospects for advancement in public practice with a well-established firm of Vancouver chartered accountants. Reply in writing to Box 255, furnishing pertinent personal information, educational attainments, and material concerning training and experience. Our staff is aware of this advertisement.

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